

**Inter-organizational paradox management:  
How National Business Systems influence the spillover of  
paradox management practices in global value chains**

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## **Abstract**

This study discusses how and whether paradox management practices spill over between organizations along a global value chain. Based on case study evidence related to a global value chain from the footwear industry between Germany and China, we study how different actors coped with the paradoxical tension between providing living wages to workers and upholding financial performance. Our findings show: (a) that the German national business system created an institutional context in which the living wage paradox was evaluated in a proactive manner, while the Chinese national business system favored a defensive response and (b) that Chinese organizations framed a proposed paradox management practice (living wage audits) in a way that it lost its intended meaning. Based on this, we theorize a sensemaking model, which highlights that relevant sensemaking activities in the Chinese context were impeded and therefore did not reinforce the proactive framing of the paradox management practice.

Keywords: paradox, national business systems, corporate social responsibility, labor rights, sensemaking

## INTRODUCTION

*"From one side, the client asks us to reduce the working time and increase the wages. But from the other side, they push the delivery and the prices like hell. So this is conflictive."*

*--- Chinese manufacturer*

Increasingly complex environments and global competition expose organizations to more paradoxical tensions today than a few decades ago. Paradoxes are defined as two conflicting goals that exist simultaneously; these goals contradict each other, but are yet “two sides of the same coin” (Lewis, 2000, p. 761) as they are interrelated and co-exist over time (Jarzabkowski, Lê, & van de Ven, 2013). The literature agrees that organizations cope with paradoxical tensions through proactive or defensive paradox management practices, which are actions they take in order to construct and respond to contradictions (Jarzabkowski & Lê, 2017; Lewis, 2000).

Surprisingly little research has been done on how paradox management takes place in *inter-organizational* contexts. While the literature has looked at how firms handle inter-organizational paradox as part of competition or cross-sector partnerships (see, e.g. Sharma & Bansal, 2017; Stadtler, 2018; Stadtler & van Wassenhove, 2016), it has not analyzed how paradox management practices spill over (i.e. spread) from one organization to another. Yet, analyzing paradox management in inter-organizational contexts matters, because through outsourcing and division of labor along global value chains organizations are connected to an increasing number of business partners. Together with these partners, they face paradoxes, which are often present in entire industries and global value chains. Therefore, organizations that collaborate along a value chain have to find joint solutions for paradox management. As Schad et al. (2016) argue, there is a need to explore the relationships among actors in organizational paradox management.

Prior research has emphasized that interpretative context (Knight & Paroutis, 2017), and especially cultural context (Keller, Loewenstein, & Yan, 2017; Prashantham & Eranova, 2018), influence how organizations *make sense* of paradox and hence their paradox management practices. Paradox management that is effective and established in one organization in a certain context is not necessarily effective for another organization in a different context. We are hence interested in how organizations, which collaborate in a joint global value chain and are confronted with the same paradox, but operate in different institutional contexts, interact in their ways of paradox handling and contextual sensemaking activities. We draw on the concept of

“national business systems” (NBS) (Maurice, M., & Sorge, A., 2000; Sorge, 1991; Whitley, 1992, 1999) to illustrate differences in institutional context. Our paper thus aims to answer the following research questions: *How does a country’s national business system affect organizations’ responses to paradoxical demands? How do these responses affect the inter-organizational spillover of paradox management practices along global value chains?*

We build on a qualitative single case study (Eisenhardt, 1989; Yin, 2014) of one global value chain related to the footwear industry (stretching from Germany to China). The empirical context of our study links to corporate social responsibility (CSR), which often confronts organizations with paradoxical tensions (Bondy, 2008; Colle, Henriques, & Sarasvathy, 2014). We analyze how organizations within the footwear value chain handle the paradoxical demand to implement living wages for workers while at the same time reducing unit prices. This demand is paradoxical to the organizations, as it requires simultaneously meeting goals related to social justice and financial performance. Our comprehensive data set includes 99 formal and informal interviews with individuals from seven organizations in the global value chain and their stakeholders as well as 188 hours of observation.

We find that along the global value chain, all organizations were confronted with the paradoxical demand to implement living wages. They all addressed the paradox by implementing living wage audits through the Business Social Compliance Initiative (BSCI). Yet, German and Chinese organizations interpreted paradox management through BSCI audits in different ways: The German retailer and the import agent coped with the paradox in a proactive manner by confronting, accepting, and adjusting the conflicting goals. They instructed their CSR departments to implement measures to increase workers’ wages and defined audit processes as a precondition for economic transactions with their suppliers. The Chinese manufacturers and material suppliers handled the paradox in a defensive way; they suppressed, repressed, and split the conflicting goals. Instead of adjusting working hours and wages, they forged the audit data. We argue that differences in the relevant NBS, among other things, can explain these diverging responses. Our data shows that even though the retailer (a powerful global buyer) managed to push down the BSCI audit standard to the other organizations in the chain, they did not manage to pass on how the audits were framed as a paradox-handling practice. Despite the proactive paradox responses of the German organizations, the BSCI audits were framed in a defensive way by the Chinese manufacturers.

Our findings contribute to two streams of literature: First, we contribute to the paradox literature by showing how different NBS create conditions, which influence the way organizations make sense of paradox management practices (Keller et al., 2017; Prashantham & Eranova, 2018; Xiao, Wilhelm, van der Vaart, & van Donk, 2019). Whether or not proactive paradox management practices are successfully pushed down a global value chain, depends on organizational sensemaking activities that are, in turn, influenced by the interpretative frames embedded in the respective NBS. We draw together our findings in a sensemaking model, which theorizes the relationship between inter-organizational responses to paradox management and the sensemaking activities that take place when paradox management is interpreted based on the repertoire of frames provided by a NBS. Second, we contribute to the literature on CSR as paradox (Hahn, Figge, Pinkse, & Preuss, 2018; Hahn, Preuss, Pinkse, & Figge, 2014; Ivory & Brooks, 2018; Sharma & Jaiswal, 2018) by displaying how organizations handle living wage implementation in their value chains. We indicate that for some social issues in global value chains, such as wages and working hours, auditing as a social compliance instrument reflects a rather ineffective paradox management strategy. When confronting suppliers from different institutional contexts with paradoxical CSR demands, buyers need to move beyond simply dictating audit schemes to their suppliers. We emphasize the need to embed auditing schemes (like the BSCI) into collaborative management practices that provide “occasions” (Weick, 1995) to create a shared understanding of the root causes of the paradoxical demands. We suggest that such an understanding of root causes can help to infuse proactive paradox management throughout the entire value chain.

The remainder of this paper is structured as follows: After a review of the literature (section two), we describe our methods of data collection and analysis (section three). We then introduce our findings (section four) and draw on the sensemaking literature to explain our results in the discussion section and outline our contributions to the existing literature on paradox and CSR (section five). The final section concludes the paper (section six).

## **LITERATURE REVIEW AND THEORETICAL BACKGROUND**

### **Paradox management**

While in the past the term ‘paradox’ has been used to describe various circumstances (Briscoe, 2016; Lewis, 2000, p. 761), by now it is commonly defined as “contradictory yet interrelated elements that exist simultaneously and persist over time” (Smith & Lewis, 2011, p. 382). This

definition distinguishes paradoxes from other dialectics, dilemmas, or choices, where the contradictory elements are not dependent on one another or tensions that are only short-lived (Hargrave & van de Ven, 2017; Lewis, 2000). The literature has looked at how organizations handle paradox, distinguishing between defensive and proactive response strategies. Defensive paradox response leads to reinforcing cycles and reproduction of paradoxical tensions (Lewis, 2000, p. 762). It refers to practices such as: (a) splitting, where the two contradictory elements are separated either temporally or spatially; (b) repressing, which refers to denial of the entire paradox; or (c) suppressing, where one side of the paradox is ignored in favor of the other (Jarzabkowski & Lê, 2017; Lewis, 2000). Proactive paradox response does not remove or resolve a paradox, but embraces it in a more effective manner (Lewis, 2000). It includes practices such as: (a) accepting, which refers to an understanding of the contradictions as a natural condition of work; (b) confronting, where contradictory elements are critically discussed; or (c) adjusting, where organizations accept both contradictory elements as equally important and mutually dependent (Jarzabkowski et al., 2013; Lewis, 2000).

Paradoxes exist on various levels (Smith, 2014): the micro level, where the individual experience of paradox and a single person's coping behavior is the research focus (Jarzabkowski & Lê, 2017); the meso level, where the *intra*-organizational boundaries of firms contain the paradoxical tensions (Jarzabkowski et al., 2013); and the macro level, where various firms at once are confronted with *inter*-organizational contradictory demands (e.g., entire value chains; Xiao et al., 2019). The literature has predominantly looked at paradox on a micro level (see, e.g. Calabretta, Gemser, & Wijnberg, 2017; Cuganesan, 2017; Jarzabkowski & Lê, 2017; Miron-Spektor, Ingram, Keller, Smith, & Lewis, 2018; Smith, 2014), on a meso level (see, e.g. Jay, 2013; Knight & Paroutis, 2017; Sheep, Fairhurst, & Khazanchi, 2017), and at how micro and meso levels interrelate (see, e.g. Abdallah, Denis, & Langley, 2011; Jarzabkowski et al., 2013). Yet, there has been remarkably little macro level research on how inter-organizational management of paradox takes place. While scholars have studied how organizations jointly manage paradox within cross-sector partnerships (Sharma & Bansal, 2017; Stadtler, 2018; Stadtler & van Wassenhove, 2016), research has scarcely examined whether and how paradox management practices spill over from one organization to another as part of collaboration agreements in global value chains. This is surprising as the globalization of value chains increasingly confronts organizations with contradictory demands and the different institutional contexts influence how paradoxes are addressed. Institutional contexts come with different political, financial, labor, and cultural systems (Whitley, 1992, 1999), which influence how organizations

cope with paradox (Keller et al., 2017; Prashantham & Eranova, 2018; Putnam, Fairhurst, & Banghart, 2016; Schad et al., 2016). Therefore, it is interesting to look at paradoxes on a macro level and analyze how organizations, which are confronted with the same paradox, but operate in different institutional contexts, influence each other in terms of their paradox management.

When looking at business conduct in different institutional contexts, sensemaking activities play a role. Sensemaking refers to the process of giving meaning to one's experiences through one's interpretative schemata ("sensemaking frames") (Weick, 1995). Recently, some scholars have analyzed paradox from a sensemaking perspective, because it gives insight on both cognition and action involved in paradox management (Hahn et al., 2014; Hargrave & van de Ven, 2017; Jay, 2013; Lüscher & Lewis, 2008; Sharma & Bansal, 2017). However, few studies have looked at how such sensemaking of paradoxes takes place across different institutional contexts (see, e.g., Knight & Paroutis, 2017; Osland & Bird, 2000), and no study, to our knowledge, has explored whether and how sensemaking activities impact the inter-organizational handling of paradox management. Our study looks into this conundrum by exploring in how far the institutional context influences sensemaking frames that are used by different organizations during paradox management.

### **Paradoxes in CSR**

CSR inherently confronts organizations with tensions because it sets non-economic (social and environmental) objectives (Hahn et al., 2014), which often contradict traditional financial goals. Therefore, CSR constitutes a paradox of performing (Smith & Lewis, 2011, p. 383), which relates to the plurality of stakeholder interests and their competing strategies and goals (Smith, 2014). Looking at CSR through the paradox lens enables "a better understanding of managerial decision making regarding ambiguous sustainability issues" (Hahn et al., 2014, p. 463). Therefore, some authors have used the paradox lens as a cognitive frame in order to analyze and comprehend CSR managers' thinking (see, e.g. Hahn et al., 2014; Sharma & Jaiswal, 2018), their identities (Carollo & Guerci, 2018), or to examine particular defensive paradox responses (Iivonen, 2018). Scholars have recommended that by applying practices of ambidexterity and paradox management, organizations can achieve higher corporate social performance (Hahn, Pinkse, Preuss, & Figge, 2016), develop strategic agility, (Ivory & Brooks, 2018), and better preserve their legitimacy in heterogeneous environments (Scherer, Palazzo, & Seidl, 2013).

However, when confronted with CSR issues, organizations often collaborate as part of multi-stakeholder initiatives (MSIs) with their competitors, suppliers, and business partners along

global value chains (Mena & Palazzo, 2012; Sloan & Oliver, 2013). The literature recently started to take interest in paradox management of single (hybrid) organizations in global value chains (Kannothra, Manning, & Haigh, 2018). Nevertheless, it has not yet looked at how and whether business partners along global value chains interact in order to jointly solve CSR paradoxes or how inter-organizational spillover of paradox management practices takes place.

### **National Business Systems**

Global value chains connect organizations with business partners from different institutional contexts. The literature has shown that institutional context largely influences the way an organization handles paradox (Keller et al., 2017; Knight & Paroutis, 2017), and therefore it is inevitable to consider the role of contextual variables when studying how organizations along global value chains jointly face paradox. We conceptualize institutional context through the notion of NBS as it theorizes durable characteristics of institutional context (Matten & Moon, 2008). The concept of business systems is a widely accepted approach to describe different types of business conduct and governance (see, e.g., Haake, 2002; Hotho, 2014; Saka, 2004). Business systems can be defined as dominant patterns of “economic organization and control” (Whitley, 1999, p. 15). The concept of NBS, as introduced by Whitley (1992, 1999), recognizes that economic organization and control interacts with institutional context. NBS offers a lens to the variety of national institutional frameworks organizations operate in and the effects these frameworks have on organizations (Hotho, 2014). The NBS approach considers that over the course of the last century different forms of capitalism have emerged in different institutional contexts (hence its parallels with the ‘varieties of capitalism’ literature (Hall & Soskice, 2013)).

The NBS literature suggests that institutional context is composed of four different sub-systems (Whitley, 1992, 1999): (1) the political system refers to the power of the state in an institutional context; it describes how willing and capable the state is to share risks with private companies and to which extent it interferes in social and economic activity through regulation; (2) the financial system points to the major financial sources for business organizations, which can be the stock market, investors, or tax money in case of state-owned firms; (3) the skill development and labor system describes how human resources are developed and regulated; it points to the post-secondary school system of a country and the way the labor market is governed, i.e. through employment law or trade unions (Whitley, 1999); finally (4) the cultural system refers to culturally shaped norms, values, and assumptions about society, business, and government in a NBS; it determines collective identities of the workforce that are prevalent in a country and

their degree of trust in authorities and it is largely affected by the reliability of public institutions in a NBS.

The two institutional contexts, which are relevant to this paper, can be characterized as follows (see table 1): The German NBS comes with (1) a political system of a social market economy with moderate state power, where the state, like in many continental European countries, interferes in economic activities (Matten & Moon, 2008). The (2) German financial system relies mostly on a number of large investors (Matten & Moon, 2008; Silvia, 2013); the two German companies discussed in this paper also rely on such large investors. The (3) skill development and labor system rests on pillars of strong public education as well as robust national trade unions and civil society (Lane, 1997). The (4) cultural system is defined by high trust in public institutions and norms and values related to strong work and business ethics (Lane, 1997).

The Chinese NBS is characterized by (1) a political system of authoritarian capitalism (Witt & Redding, 2013), where the Communist Party of China (CPC) is powerful (Hofman, Moon, & Wu, 2017). The (2) financial system is split: for firms that are party-owned, state-owned banks offer financial resources; for privately-owned companies, financial access is a lot harder (Hofman et al., 2017; Witt & Redding, 2014). Most Chinese suppliers that are part of global textile and footwear value chains are part of the private sector, including the five Chinese firms discussed in this paper. The (3) skill development and labor system rests on a relatively weak education system (Witt & Redding, 2014), which leads to shortage of skill development (Witt & Redding, 2014). There is one party-owned trade union, the All-Chinese Federation of Trade Unions (ACFTU), which mainly represents interests of the CPC (Hofman et al., 2017). The (4) cultural system is defined by low trust in authorities, which supports the institutionalization of corruption (Whitley, 1999, p. 52; Witt & Redding, 2014). Chinese norms and values lead to a positive attitude towards work (Witt & Redding, 2014).

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## **METHOD AND CASE SETTING**

A case study research design enables us to conduct an in-depth analysis of complex settings (Yin, 2014). The global footwear industry offers a suitable research context as it was recently confronted with the living wage paradox (similar to the textile industry (Egels-Zandén, 2017)). For the brands and retailers in the industry, the NGO pressure to implement living wages is a

performance paradox (Smith & Lewis, 2011), as it collides with their established goal to minimize unit prices. We selected the living wage paradox as a case because it is a paradox that confronts several organizations at once. It requires inter-organizational solution finding and, ideally, a spillover of paradox handling practices between organizations despite their geographical distance and different institutional contexts.

### **Research context**

The initial part of our data collection was conducted in Germany with two organizations, which form the first two stages of the global value chain. The *retailer* (in this paper referred to as *Retail Group*) looks back to a long-standing tradition as one of Germany's leading retail companies. Ever since the 1980s, Retail Group has sourced products from overseas factories. In the 1990s, they established a CSR department and started addressing social and environmental conditions in their value chains. We also analyzed an *importing firm* (in this paper referred to as *Shoe Import*) with offices in both Germany and China. Shoe Import is mainly specialized on trading footwear products. Ever since the early 1990s, they import shoes from countries like India, Vietnam, and China, with China being their biggest producing market.

Retail Group, in early 2015, and Shoe Import, in 2016, lifted the topic of living wages onto their CSR agendas. A living wage is a wage that secures an adequate living standard for workers and their families above the poverty line. In contrast to a legal minimum wage, it is not the result of industry collective bargaining or legislation, but is set from a certain threshold of quality of life (Carr, Parker, Arrowsmith, & Watters, 2015; Shelburne, 1999). To Retail Group and Shoe Import the ambition to implement living wages was paradoxical as it was against their established purchasing practices, which set financial performance and low unit prices as the highest objective. Both Retail Group and Shoe Import manage issues of social responsibility in their global value chains through the *Business Social Compliance Initiative* (BSCI), which is a social auditing initiative. BSCI members are obliged to pay at least the local legal minimum wage to workers in their value chains and comply with local maximum working hours. However, the BSCI can also be used as a tool to push the responsibility for living wages down the value chain (see below). Complying with the BSCI can therefore help organizations to cope with the living wage paradox, if relevant organizational actors interpret the BSCI as a way to accept both living wages and financial performance as equally important and mutually dependent.

The other part of our research took place in China, where we collected data with another five organizations along the value chain. Our journey along the global value chain first led us to the

Chinese office of Shoe Import in the province Guangdong, which was opened in the early 2000s and employs both German and Chinese staff. We then moved to the Fujian province, where we collected data with three *manufacturers*. All three manufacturers have had long-term business relations with Shoe Import. Finally, we conducted research with two *material suppliers*, which are also situated in the Fujian province. Similar to the manufacturers, both material suppliers are private family businesses. While we are aware that our sample footwear value chain extends to more suppliers, dyers, and producers of raw materials, we stopped our data collection in the second tier of the value chain. We did this mainly for reasons of good access, which is crucial when analyzing a research topic, where paradoxical tensions play a role (Feldman, Bell, & Berger, 2003). To Chinese manufacturers and material suppliers, the demand to pay living was paradoxical, as it required raising labor costs while simultaneously decreasing prices.

### **Data collection**

We draw on three types of data sources: interviews, observations, and archival data. Tables 2 and 3 give an overview of our data set.

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**Interviews.** In total, we conducted 47 formal (semi-structured interviews, see Appendix 1 for an example of our interview guide) and 52 informal interviews with individuals in and around the value chain between 2015 and 2018, which helped us to understand the paradox and the organizations' paradox responses. We audio recorded and transcribed all formal interviews, resulting in 235 pages of transcript. Interviews were conducted in English, German, and Mandarin (with the help of an interpreter). Those parts of the interviews that we used as direct quotes in the paper were translated to English. We captured informal interviews through field notes (for anonymization used in the data see Appendix 2). In total, our data set includes approximately 61.5 hours of interviews. Data collection started in 2015, when we conducted a series of formal interviews with Retail Group's CSR managers, who had just been confronted with the living wage paradox. In order to learn more about paradox management mechanisms within and between organizations, i.e. actual living wage implementation, we asked Retail Group to connect us with their suppliers along one value chain in 2016. As getting access to suppliers was not easy, it took us until 2017 to lead our first interviews with employees of Shoe Import and schedule factory visits in China. While we had sampled the textile and footwear industry theoretically, because it had recently been confronted with the living wage paradox, the focus

on the Chinese footwear industry was determined by Shoe Import's willingness to provide us access to their business partners.

Interviewees included representatives of Retail Group's CSR (n = 7) and buying departments (n = 3) (in Germany), Shoe Import's CSR (n = 4) and buying departments (n = 8) (in Germany and China), factory managers (n = 6) and workers (n = 14) of manufacturers and material suppliers (in Fujian province, China), other employees of the organizations in the chain (n = 6), and stakeholders (n = 23) (see table 3). While most of our interviews in Germany were formally audio recorded and transcribed, many of the interviews in China had an informal character and could not be recorded for two reasons: First, not recording helped to get interviewees to speak more freely (mostly the case for factory managers and workers). Second, recording was not possible because we conducted interviews in informal and loud settings. For instance, most worker interviews were conducted next to the production lines in order for workers to still be able to meet their piece rate objectives for the day. In addition, many interviews with Shoe Import's Chinese staff and some of the traders and factory managers took place during business lunches and dinners or during car rides, where they resembled more informal conversations than formal interviews. In addition to our interviews with professionals along the value chain, stakeholder interviews completed the data set (see table 2). These stakeholder interviews mainly fulfilled the purpose to triangulate our findings and understand the German and Chinese institutional contexts.

***Non-participant observations.*** We visited Retail Group and Shoe Import on several occasions between 2015 and 2018 observing informal and formal meetings and events, however without actively participating in these activities. Moreover, we spent five weeks in March and April 2018 in Hong Kong and China conducting stakeholder interviews, visiting the Chinese office of Shoe Import, and accompanying representatives of Shoe Import's CSR department on routine factory visits as silent observers. Through these observations, we were able to learn more about the contradictory tensions the managers were facing and to first-hand observe everyday responses to the living wage paradox. In total, this resulted in 188 hours of direct observation captured in field notes.

***Archival data.*** Retail Group and Shoe Import provided 47 mostly non-public documents for analysis such as PowerPoint slides, meeting minutes, and reports, which helped to build our background understanding of the two organizations and the relevant institutional context. In order to comprehend the context of the footwear industry between Germany and China and the

overall living wage issue, we drew on an additional 38 documents, some of which were publicly accessible and some of which were provided by different stakeholders (e.g., NGOs and international organizations).

### **Data analysis**

The data was analyzed using an open-ended theory-building approach, which started during data collection and took several iterative cycles (Corbin & Strauss, 2015; Gioia, Corley, & Hamilton, 2013). We went through a four-step process of data analysis (see figure 1):

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***Step 1 – Identification of paradox.*** In 2015, we led 11 interviews with CSR managers of Retail Group and their stakeholders and learned about the demand to implement living wages in their global value chains. After a first round of inductive analysis and a literature review, we identified this demand as particularly interesting, because it seemed inherently paradoxical to the actors.

***Step 2 – Open coding.*** We got access to the value chain and collected more data. Our data included multiple units (i.e. organizations in the value chain) and levels of analysis (i.e. intra- vs. inter-organizational paradox management), with blurring boundaries (Langley, 1999). We coded data for each organization in the value chain separately. Using MAXQDA, we created an integrated database of all data and assigned 308 mass descriptive open codes (Strauss & Corbin, 1998). Three themes emerged during this phase of analysis: First, the nature of the living wage paradox unfolded as a particularly interesting *inter-organizational* paradox that confronted all organizations along the value chain and that demanded joint paradox handling. Second, the contrast between proactive and defensive paradox management by different organizations along the chain became clear. Third, the spillover of paradox management stuck out as interesting.

***Step 3 – Axial coding.*** We started to analyze data across the different organizations in the value chain applying constant comparison (Glaser & Strauss, 1967). While the first two steps were rather inductive, we included more abductive elements in this step by linking our data to the paradox literature (Mantere & Ketokivi, 2013). We identified different proactive and defensive

paradox management practices, singling out adjusting, confronting, and accepting (i.e. proactive practices) and suppressing, repressing, and splitting (i.e. defensive practices) (Jarzabkowski & Lê, 2017; Lewis, 2000). We then allocated the organizations to two different contexts (Germany and China) and made references to the NBS literature (Whitley, 1992, 1999) to further explain the phenomena we could see in the data. We assigned 57 axial codes (Strauss & Corbin, 1998) distinguishing between paradox management in the German and Chinese NBS. The comparison was further informed by additional informal interviews with CSR managers of Retail Group and Shoe Import.

**Step 4 – Aggregation of data.** In order to move from a large number of descriptive open and axial codes to a smaller number of more telling codes, we returned to the literature on paradox management, paradoxes in CSR, and NBS. We compared the descriptive codes with one another and further contrasted them with the literature. This yielded 16 first-order codes (van Maanen, 1979) (see figure 2). Finally, we further grouped these first-order codes into 12 second-order themes as well as three aggregate dimensions (see table 4). In order to explain our results and build them into a model, we drew on the sensemaking literature.

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## **FINDINGS**

Our findings first describe how the German NBS created conditions that mostly enabled proactive paradox responses (sub-section 1); while the Chinese NBS mostly fostered conditions for defensive paradox responses (sub-section 2). We then describe how the interpretation of the BSCI (the paradox management practice) differed across both NBS and which implications this had for the spillover of this practice along the value chain (sub-section 3). Figure 3 summarizes our findings.

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### **Proactive paradox responses in the German National Business System**

The institutional factors of the German NBS created conditions that influenced how Retail Group and Shoe Import made sense of and handled the living wage paradox. As part of the German political system, the state encouraged voluntary regulation of wages and working conditions along global value chains. Particularly, the German Textile Alliance (a governmental

initiative) confronted Retail Group and Shoe Import with the living wage issue and encouraged them to put it on their CSR agendas.

*"So, that (attention to living wages) is changing rapidly through the German Textile Alliance, which has become very large. (...) as an element of our social management system, it (the living wage topic) came through the German Textile Alliance" (RetailGroup5).*

*"We have to (...) position ourselves towards living wages in the German Textile Alliance in order to make a political statement" (Retail Group1\_I14).*

The German Textile Alliance, which was founded by the German government and may even turn into a legal obligation in the future (RetailGroup1\_I1), encouraged Retail Group and Shoe Import to embrace the payment of living wages as a precondition for doing business along global value chains. It was therefore easier for both organizations to handle the opposite poles of the living wage paradox – social justice vs. financial performance – with equal importance and in an integrated manner.

Parts of the German financial system encouraged organizations to see responsible business conduct as a driver of competitive advantage. The financial market consists mostly of large investors (Matten & Moon, 2008), which demanded organizations to avoid reputational risks and plan long-term in order to get access to capital. Organizations, therefore, were motivated to be a responsible player by financial market actors. Retail Group's CEO stated at the 2018 annual press conference for the financial report: "We want to become the ethically impeccable alternative to Amazon" (RetailGroup1\_I15). Not much different, Shoe Import, in their 2017 sustainability report, framed their social commitment as a driver of innovation and competitive advantage:

*"What sets us apart from the other players in the market, (...) is commitment (...) Over the last decade we worked hard to integrate social and environmental compliance in our traditional manufacturing practices and to come up with innovative ideas to advance sustainable materials, production techniques and management approaches" (ShoeImport\_Owner in 2017 sustainability report).*

By framing responsibility in such a win-win way, it became easier for organizations in the German NBS to handle the two opposite poles of the living wage paradox in an integrated manner. Paying living wages and achieving financial performance were not seen as mutually exclusive. Rather, both elements were adjusted in a way that they reinforce each other.

The skill development and labor system in Germany comes with strong NGOs and trade unions (Lane, 1997) that put pressure on organizations to pay living wages:

*"I believe the urgency with which NGOs are treating the topic (of living wages) made it inevitable that it also got on our agenda. I do not believe (...) we did a risk analysis or some sort of mapping and said 'So, (...) where do we have to become more active?', but I believe it comes from the multi-stakeholder initiatives, especially the German Textile Alliance (...). I believe that it (the topic of living wages) is a reoccurring question to which we do not have an answer and this (...) makes it very visible to us that we have to put it on the agenda" (Retail Group1\_I1).*

NGOs confronted firms like Retail Group and Shoe Import with the living wage paradox, and this caused them to proactively deal with the underlying tensions. The non-payment of living wages was perceived to be related to significant reputational risks and a loss of financial advantage.

The German cultural system comes with norms and values that encouraged proactive paradox management by emphasizing trust in authorities as well as strong work and business ethics (Lane, 1997). Individuals within organizations, especially CSR managers, conducted responsible business to meet their own ethical standards and current as well as future legal requirements (Retail Group1\_I1). Managers therefore applied proactive paradox management practices, such as confronting and adjusting, by entering conflicts with other members of their organizations and by showing real commitment to integrating the opposite poles of the paradox and implementing living wages despite the highly competitive industry they operate in: "I think we (my boss and I) don't understand each other. We cannot make political statements on the side. We have to make real changes" (Retail Group1\_I14).

### **Defensive paradox responses in the Chinese National Business System**

The Chinese NBS created conditions that encouraged organizations to adopt rather defensive responses to the living wage paradox. While the Chinese government launched strict wage legislation that required high overtime payment, it did not enforce these laws:

*"In China, we have a labor law that says overtime should be limited to three hours a day. In a week, the total working hours should not be more than 60 hours. (...) This is Chinese labor law. But China is such a particular country; it is normal that an employer does not comply with the labor law. (...) Because we don't have such a strict (enforcement of) regulation" (ShoeImport2\_I2).*

Some aspects of the Chinese social security legislation were outdated in the sense that they were never adapted to the needs of migrant workers, which made up half of the workforce in the factories we visited (Manufacturer1). Hence, many Chinese workers did not have social security, but they had to afford health and pension costs from their own wages, which, strictly speaking, makes living wages even more desirable:

*"If only after 15 years of living in a place and having to stay there, you get access to your pension, then naturally no migrant worker will make payments to such a pension fund. This is completely illogical. (...) I don't know, if you know these old Chinese laws, back from the communist time, when everyone was tied to a certain place. You were not allowed to leave your province. (...) You grow up in one city, you stay there, you work there, and you die there. And this is not up to date anymore in China (...) but the legislation does not catch up. And this is the problem" (ShoeImport1\_I2).*

This malfunctioning legislation caused Chinese organizations to suppress one side of the paradox. The manufacturers and material suppliers paid no attention to relevant legislation because it was clear that non-compliance would remain without consequences and that the CPC did not pressure firms to adopt multi-stakeholder solutions (as the German government did).

The Chinese financial system also encouraged this defensive handling of the living wage paradox. The manufacturers and material suppliers in the value chain we studied are private firms, which cannot easily access bank loans in China (Witt & Redding, 2013). Also, in the Chinese financial system, there is no established system of insolvency proceedings, which reduced Chinese organizations' ability to take financial risks, because going bankrupt means "losing your face" (Manufacturer1) and "taking a lot of people with you" (ShoeImport1). In combination, these two effects made it hard for Chinese organizations to make long-term investments in worker trainings, which would enable an environment where living wages could be implemented.

*"Nowadays, actually, a supplier or factory is never interested in doing this (investing in trainings for workers). But they also don't know how to, and they don't know how much money they need to invest. And then they don't know, if they will have benefits; they just don't know what are the final benefits that they can get, if they invest that much" (Manufacturer1).*

Consequently, the Chinese firms prioritized short-term financial goals and thus suppressed one side of the paradox.

The Chinese labor system comes with a party-owned trade union that does not effectively advocate for workers' rights (Hofman et al., 2017).

*"Actually, the local government asked us to have a workers' union. So, we do have one, but they don't really do anything – I mean, not like a real workers' union (...) – I think 95 % of the new workers are not familiar with the workers' union. It's not popular in China, especially for private factories. It doesn't work, I think" (Manufacturer1).*

In combination with the Chinese education system, which does not encourage critical thinking but encourages to reach goals through hard work (Hofman et al., 2017), this prevents workers from raising their voice in order to demand higher wages (and thus put pressure on firms).

Rather, workers focus on earning the money they need through volunteering to do excessive overtime:

*"Wages are always linked to the problem of overtime. Many people complain that the workers in China work excessively, because they volunteer (to do overtime), because they want to earn more, in order to have a shorter working life, and then go back to their hometowns and build their houses" (BSCI3).*

Hence, Chinese companies are not much confronted with the two opposite poles of the paradox by their workers in the first place (only by their clients at the other side of the value chain), which makes it easier to repress the underlying tension.

The Chinese cultural system comes with norms and values that lead to low trust in authorities and therefore a certain willingness to accept corruption as a given (Whitley, 1999). Manufacturer1 quite openly talked about making payments to workers, so they do not reveal grievances to the government:

*"When the government comes to your factory, they will point out a lot additional problems (...) like safety or pollution issues or something like this. And then you need to pay them more and more. So, that's not a good idea. That's why we rather pay the workers (additional payments they requested) and keep our heads down" (Manufacturer1).*

In combination with the conditions enabled by the other three subsystems of the Chinese NBS, this willingness to enter into corruption reinforced the defensive paradox response, especially splitting between expected living wage requirements on paper and lowering actually paid wages in practice in order to optimize financial performance.

### **Differing interpretations of BSCI audits as a paradox management practice**

So far, our findings have discussed the conditions created by the German and Chinese NBS for firms to make sense of and handle paradoxical tensions. In this section, we point to the specific *practice* the firms applied in order to manage the living wage paradox in our empirical context and how it was interpreted. The paradox led to the emergence of one particular paradox management practice along the value chain: living wage audits as part of the BSCI (BSCI1, 2, 3). The BSCI audit system was an established part of the global value chain. However, the particular part of the BSCI audits asking for living wage data was only added in 2015 due to pressure by BSCI member companies (BSCI1). At the time of our study, auditors could, but did not have to, inquire about living wages during audits (BSCI1). Living wage audits were therefore not incorporated into all BSCI audits along our global value chain. However, factories did not know

beforehand, if they had to deliver living wage data during an audit or not. Hence, they had to at least prepare relevant data in case auditors would inquire about living wages.

The BSCI living wage audits were not per se a proactive or defensive way of paradox management; it depended on how organizations interpreted the BSCI against the context of their NBS. Organizations in the German NBS interpreted the audits in a *proactive* manner. Both Retail Group and Shoe Import accepted that living wage payment should be a precondition for business conduct and should therefore be part of the BSCI. Their aim was to adjust the two conflicting goals by accepting them as equally important and mutually dependent. Both Retail Group and Shoe Import encouraged the BSCI to make the living wage a mandatory element of all audits (RetailGroup1\_11; ShoeImport1\_11):

*"I believe, if the BSCI takes the role to make the topic more present, to broach the issue in every audit, in every findings report, this is a good starting point for developing a solution together. Therefore, in my opinion, (the BSCI plays) a very central role (to the living wage issue). (...) In order to create awareness for the topic and a homogenous understanding (of living wages) in the entire industry, the BSCI is essential" (Retail Group1\_11).*

Chinese firms interpreted the audits in a *defensive* way that helped them to suppress the paradox. They split the paradox by having the input for their BSCI audits on wages and working hours forged by an external consultant (ShoeImport1\_1; ShoeImport2\_2) in order to continue "business as usual" and meet their economic goals. For instance, a representative from Shoe Import said: "The issue is that almost no factories have attendance records, but have them faked once a year by consultants for the BSCI audits" (ShoeImport1\_11). Even though the living wage issue could have been part of audits, the Chinese organizations favored financial performance, while social justice was only given consideration "on paper":

*"The Chinese way to handle such audits – one realizes you cannot find firms you can rely on. (...) Factories sometimes have 5 or 6 different document versions, because a client wants documents that are a little bit honest. Then they need one version for the BSCI. Then I come and want completely honest documents, which means they have to record their overtime realistically. For others, they only record 2 hours per night" (ShoeImport1\_11).*

Although German and Chinese firms construed the BSCI living wage audits differently, the interpretation of the practice *within each NBS* spilled over: i.e. Retail Group's proactive handling was passed on to Shoe Import (in Germany), while the manufacturers' defensive handling was passed on to the material suppliers (in China). The main driver of these spillovers was that lead firms in each NBS (the retailer in Germany and the manufacturer in China) pushed their

interpretation of the paradox management practices down the value chain. We refer to this spillover practice as “dictating standards”.

*"It has always been our endeavor to say 'Let's put the work on many shoulders, let's involve as many people as possible' (...); to activate market forces to increase pressure on the value chain in order for this pressure to result in stronger reactions of suppliers that feel obligated to implement what we demand from them" (RetailGroup5).*

By dictating their expectations, Retail Group also transferred their proactive paradox management practices to Shoe Import. They dictated the BSCI standard, because it could potentially address the living wage issue. Retail Group defined this standard as a precondition for suppliers to do business with them (RetailGroup5), and it required its import agents to become BSCI members and to conduct relevant audits in the factories they collaborate with: “We do BSCI audits because our clients require us to” (Shoe Import1).

Dictating standards also occurred in the Chinese NBS, where manufacturers dictated their expectations to material suppliers. Material suppliers mostly conducted BSCI audits because the manufacturers asked them to:

*“As the boss of the factory, my first concern is that one should satisfy the customers' requirements. So as the customer has such a requirement, I have to take the decision to conduct this audit” (Material Supplier1).*

This dictating of the BSCI standard caused a spillover of defensive paradox management practices. Despite requiring material suppliers to do the audits, manufacturers did not really confront them with both sides of the living wage paradox. They did not require them to actually adjust their business practices in order to address the paradox. Manufacturers accepted that material suppliers forged their BSCI audit results (as they did themselves) and hence dictated a defensive handling of the paradox management practice. For instance, Material Supplier1 only had one of his production sites audited, “which was the smallest and prettiest” (ShoeImport1). In order to save audit costs, the company listed three production sites under the same address, despite them being in different locations (ShoeImport1). Although the manufacturer knew about this practice, they did not demand to change this approach (ShoeImport1). Generally, the manufacturers accepted that material suppliers also repressed the paradoxical tensions by not conducting audits in a reliable manner:

*“I also talk to the material factories (...). Yeah, sometimes, you know, I explain them (...) the rules (...). But you know, sometimes (...) they want to save the cost, and also give the cheaper price” (Manufacturer5).*

Overall, the BSCI practice was framed very differently along the global value chain. While the BSCI was “officially” established in all organizations along the value chain, the way it was applied to the living wage paradox differed between the two NBS. The German organizations managed to pass on the audit standard to the Chinese organizations, but not the way it was framed vis-à-vis the underlying living wage paradox. The Chinese manufacturers passed on defensive paradox handling to the material suppliers and thereby further suppressed the paradox. By suppressing the paradox, BSCI audits turned into a largely ineffective tool to secure workers’ living wages. As one CSR manager of Shoe Import said:

*"The (BSCI) team in Brussels is super good, really good people. The foundation (of the BSCI) is good and the auditor trainings are also good. Yet, it completely collapses along the value chain and this is really sad" (ShoeImport1\_11).*

## DISCUSSION

### **A sensemaking model of inter-organizational responses to paradox**

Our study has explored how German and Chinese companies have coped with the living wage paradox along a global value chain. What is interesting is that the BSCI audit scheme was perceived as a proactive tool to handle paradox in the German NBS and as a defensive way to cope with paradox in the Chinese NBS. German companies did not manage to dictate proactive paradox management to the entire value chain, because a change in interpretation of the paradox management practice occurred while the BSCI moved from one NBS to another. How can we explain this result?

We draw together our findings in a sensemaking model of inter-organizational responses to paradox. The model theorizes the relationship between NBS, sensemaking activities, and the spillover of paradox management practices in the context of our case study. We believe that a focus on sensemaking is important to explain our findings, as the living wage paradox and the related paradox management practice exposed actors in both NBS to an ambiguous and confusing situation in which they looked for a more orderly understanding (Weick, 1979). A paradox, therefore, reflects a “cue” – i.e. a confusing experience that people need to make sense of (Weick, 1995, p. 110) – which organizations need to respond to by mobilizing interpretation schemata (“frames” (Weick, 1995, p. 110)), which are, among other things, influenced by the NBS that the organization operates in. New meaning is created, if actors mobilize frames from their existing knowledge to make sense of cues.

Our model (see figure 4) distinguishes between the German and Chinese NBS. Within each NBS, there is a spillover of the proactive (Germany) or defensive (China) interpretation of the paradox management practice. In the German NBS, this spillover effect occurred because the positioning of the BSCI audit scheme vis-à-vis the living wage issue triggered sensemaking processes within Retail Group and Shoe Import, which, in turn, enabled the enactment of a shared organizational reality. The German companies combined relevant cues with frames that were influenced by the NBS they were operating in. However, as the BSCI moved down the value chain, it turned from a solution to the living wage paradox into a practice whose effects were suppressed through corruption and the forging of audit results. In other words, while sensemaking activities helped German firms to see the BSCI as a proactive paradox response, the Chinese institutional context impeded such active sensemaking activities but rather encouraged firms to accept the status quo (i.e. that living wages contradict financial performance) and continue routinized behavior (i.e. aiming for the lowest unit price).

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Insert figure 4 about here  
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The question, then, is: Which factors impeded sensemaking activities by the Chinese organizations? We suggest three factors in particular: (1) differences in the experience of discrepancies between expectations and existing organizational reality, (2) the normalization of deviant behavior, and (3) a lack of response to leaders' sensegiving activities. These three factors emerged once we contrasted our results with insights from relevant parts of the sensemaking literature (e.g., Dunbar & Garud, 2009; Gioia & Chittipeddi, 1991; Weick, 1995) in order to arrive at a theoretical explanation for why responses to paradox management practices differed across NBS. Our model views the NBS as the institutional context that provides the repertoire of frames through which organizations assess sensemaking cues (see also Maitlis & Sonenshein, 2010).

***Differences in the experience of discrepancies.*** Sensemaking processes are often triggered by discrepancies between expectations (in our case related to living wage implementation) and the existing organizational reality (Weick, 1979). The experience of such a discrepancy is subjective (Maitlis & Christianson, 2014). However, how significant the experience of this discrepancy is depends, among other things, on the institutional context provided by the NBS (Cerulo, 2006). The NBS offers a frame repertoire, which actors can draw upon to interpret the existing discrepancy. In our case, the German managers experienced the discrepancy between actual

paid wages and living wages as high, which called for sensemaking efforts on their side. The managers knew that the different components of their NBS called for a resolution of the living wage paradox (e.g., because of pressure by government-led initiatives). Hence, the retailer and importer mobilized interpretative schemata, which framed BSCI audits as inevitable and important. By contrast, the Chinese managers accepted that the paradox management practice only existed “on paper”, because the malfunctioning Chinese legal system as well as the weak role of unions did not create high enough expectations vis-à-vis the living wage issue. Although the discrepancy between paid and living wages also existed in the Chinese context, it was not experienced as a problem that needed to be addressed. As Weick (1995, p. 91) writes: “People have to experience the discrepancy and recognize it as such. The mere presence of a discrepancy is not sufficient.”

The discrepancy between expectations and reality can be further enhanced by the experience of crises situations (Hoffman & Ocasio, 2001; Weick, 1995), which challenge existing interpretative schemata. In our case, the German retailer and importer knew that the industry image was challenged by various non-routine environmental events (e.g., the Rana Plaza incident in the textile industry as well as forced labor issues in Chinese textile and footwear factories), which called existing interpretative schemata into question. Due to the strong role of NGOs and unions in the German NBS, such non-routine incidents were widely discussed and hence put additional pressure on companies to come up with adequate responses. The proactive framing of the BSCI was therefore not perceived as a threat, but as a welcome way to publicly respond to crises situations and to manage reputational risk. In the Chinese NBS, such incidents were not part of the public discourse and were largely censored by the media (Witt & Redding, 2014).

***Normalization of deviance.*** Sensemaking activities can be impeded by what Vaughan (1996) has called the normalization of deviance (also Maitlis & Christianson, 2014). Such normalization occurs whenever actors do not realize anomalies as events that could trigger sensemaking. Rather, they see such anomalies as something to be expected. For instance, if paradox management practices are hindered by corruption (like in our case), and when corruption is seen as “normal” and is therefore expected by actors, relevant sensemaking processes around the paradox management practice are blocked. Hence, what appears to be normal and acceptable to insiders (i.e. those, who are familiar with a certain NBS) is often seen as deviant action by outsiders. In our case, the Chinese NBS was characterized, among other thing, by a lack of law enforcement and high levels of corruption (see above), both of which were experienced as normal conditions by organizations and hence hampered sensemaking practices that could have

framed the BSCI as a proactive paradox response. By contrast, the German managers, with their high trust in public institutions, saw practices like corruption as an unacceptable anomaly that needed to be proactively addressed.

***Lack of response to sensegiving activities.*** Sensemaking in the Chinese context was further impeded by a lack of response to sensegiving activities coming from the German organizations. Sensegiving refers to attempts to “influence the sensemaking and meaning construction of others toward a preferred redefinition of organizational reality” (Gioia & Chittipeddi, 1991, p. 442). Managers in the German business system actively tried to convince themselves, their stakeholders, as well as the Chinese manufacturers that BSCI living wage audits were inevitable and important; they used the BSCI to redefine interpretative frames that acted as the ground for evaluating the paradox (e.g., the need to allow for living wage audits to respond to public pressure). This sensegiving framed the BSCI as a solution, and this framing was important when evaluating how to best address the paradox. By contrast, leaders in the Chinese firms either completely ignored or marginalized relevant sensegiving attempts by the German managers. Chinese managers had their own interpretations of the paradox and hence resisted to view the BSCI as a proactive solution. As Sonenshein (2010) observed, sensegiving is not a top-down process: Those, who receive sensegiving attempts often stick to their own interpretations and thus oppose alternative framings.

### **Theoretical Contributions**

Our paper makes two key contributions to the literature: First, we contribute to the paradox literature by analyzing how an inter-organizational paradox is handled along a global value chain and how the institutional context of different countries influences organizational responses to paradoxical demands. We extend the recent literature that discusses how the larger organizational environment affects firms’ responses to paradoxical tensions (Jarzabkowski et al., 2013; Keller et al., 2017; Knight & Paroutis, 2017). While this literature has highlighted how national culture influences paradox management (Prashantham & Eranova, 2018), we put a stronger focus on the role of NBS and thereby emphasize how historically-grown features such as political and financial systems impact firms’ responses to paradox. Contrary to prior research (Xiao et al., 2019), we did not find Western firms being able to moderate the paradoxical tensions in a way that they became bearable for Chinese businesses. Rather, our study showed that Chinese firms interpreted a suggested paradox management practice in defensive ways. This framing was influenced by differences in how firms from each NBS engaged in sensemaking processes, mostly affected by (1) how they experienced discrepancies between

expectations and reality, (2) whether practices, like corruption, were perceived as normal, and (3) whether relevant sensegiving attempts were considered as relevant in the given institutional context. We caution that our results should in no way be treated as generalizable.

Second, we contribute to the literature discussing paradoxes in the context of CSR. Prior work has emphasized that inter-organizational CSR paradoxes, such as between social justice and financial performance, demand collaborative solutions (Stadtler, 2018; Stadtler & van Wassenhove, 2016). While our study does not call into question the general relevance of collaborative solutions, it shows that their success depends on creating shared sensemaking processes across organizations that are exposed to different frames originating from their respective NBS. We thereby show that future discussions around paradoxical tensions within the CSR field need to consider more seriously the literature on “CSR sensemaking” (Basu & Palazzo, 2008). Collaborative solutions to CSR paradoxes require exploratory sensemaking processes among different stakeholders in which the meaning of paradox management practices is jointly enacted. Such an understanding puts less emphasis on the mere availability and dissemination of relevant practices (e.g., auditing schemes). Instead, it highlights that paradox management is influenced by organizationally embedded cognitive and linguistic processes that need to be shared among firms operating within different NBS.

We believe that this insight is particularly useful when studying CSR paradoxes along global value chains (which, to our knowledge, has rarely been done; see e.g. Xiao et al., 2019 for a recent exception). Focusing on joint sensemaking processes along global value chains therefore implies that auditing schemes like the BSCI need to be embedded into collaborative management practices that provide “occasions” (Weick, 1995) for inter-organizational sensemaking. Practically speaking, such occasions can be found in different contexts. Compliance-focused “snapshot” auditing processes, like currently undertaken through the BSCI, need to include more participatory elements. For instance, involving buyer firms into training sessions for suppliers would help all involved parties to better understand why proactive paradox management ideas often collapse along global value chains.

## **CONCLUSION**

Our paper has shown how organizations along a global value chain addressed the living wage paradox. We demonstrated that all stakeholders along the value chain applied the same paradox management practice: the BSCI living wage audits. However, this practice was interpreted in different ways in Germany and China depending on the conditions for paradox management

that were influenced by the respective NBS. While the German retailer could dictate its proactive interpretation of the BSCI practice to the importer, this interpretation was not passed on from the importer to the Chinese manufacturers. Instead, the Chinese manufacturers framed the practice in a defensive way, and then dictated this interpretation to their material suppliers. We explained these results by suggesting that German organizations' proactive framing was triggered by sensemaking activities around the living wage paradox that were influenced by the repertoire of interpretative schemata related to the respective NBS, while these activities were impeded in the Chinese context.

## TABLES AND FIGURES

	<b>German NBS</b>	<b>Chinese NBS</b>
<b>Political system</b>	<ul style="list-style-type: none"> <li>– Social market economy with moderate state power (Matten &amp; Moon, 2008)</li> <li>– State interferes through regulation of, e.g., national insurance systems for health, unemployment, maternity, and pension (Matten &amp; Moon, 2008)</li> </ul>	<ul style="list-style-type: none"> <li>– Authoritarian capitalism with powerful Communist Party of China (CPC) (Witt &amp; Redding, 2013)</li> <li>– Large number of companies are party-owned (Hofman, Moon, &amp; Wu, 2017)</li> <li>– State itself “acts as a capitalist” (Lin, 2010: 64)</li> </ul>
<b>Financial system</b>	<ul style="list-style-type: none"> <li>– Steered by a number of large investors, who in addition to the stock market finance the larger part of German corporations (Matten &amp; Moon, 2008)</li> </ul>	<ul style="list-style-type: none"> <li>– For firms that are party-owned, state-owned banks offer financial resources (Witt &amp; Redding, 2014)</li> <li>– For privately-owned companies, financial access is a lot harder to obtain as they do not have access to official bank loans (Hofman et al., 2017; Witt &amp; Redding, 2014)</li> </ul>
<b>Skill development and labor system</b>	<ul style="list-style-type: none"> <li>– Strong public education with qualitative public schools and universities complemented by a dual apprenticeship system, where both industry and state are responsible for producing human resources and developing their skills (Lane, 1997)</li> <li>– Strong national trade unions, which conduct centralized collective bargaining for wages and working conditions of with national employers’ associations (Lane, 1997), strong civil society</li> </ul>	<ul style="list-style-type: none"> <li>– Relatively weak education system, despite it advances in recent years (Witt &amp; Redding, 2014), that does not encourage critical thinking, but focuses on hard work (Hofman et al., 2017)</li> <li>– Shortage of usable skill and high employee turnover (Witt &amp; Redding, 2014)</li> <li>– Party-owned trade union (All-Chinese Federation of Trade Unions), which does not represent worker rights, but interests of CPC (Hofman et al., 2017)</li> </ul>
<b>Cultural system</b>	<ul style="list-style-type: none"> <li>– High trust in public institutions and authorities (Lane, 1997)</li> <li>– Norms and values related to strong work and business ethics (Lane, 1997)</li> </ul>	<ul style="list-style-type: none"> <li>– Low trust in authorities, triggered by history of the Cultural Revolution, leads to low compliance with legal regulation and institutionalized corruption (Whitley, 1999: 52)</li> <li>– Norms and values lead to positive attitude towards work (Witt &amp; Redding, 2014)</li> </ul>

Table 1: The German and Chinese NBS (own table).

Organization	Location	Interview partners*	Fomal interviews**	Informal interviews***	Hours of interviews	Hours of observation	Number of documents
Retail Group	Germany	12	6	16	14,5	22	32
Shoe Import	Germany	5	5	15	8	14	13
	China	7	5	7	5	96	2
Manufacturers	China	14	3	11	6,5	38	0
Material suppliers	China	10	5	2	4	10	0
<b>Value chain data:</b>		<b>48</b>	<b>24</b>	<b>51</b>	<b>38</b>	<b>180</b>	<b>47</b>

BSCI	Germany	2	2	1	2,5	0	8
	China	1	1	0	1	0	2
MSIs	Germany	1	1	0	1,5	0	0
	Other	3	3	0	3	0	11
NGOs	Germany	2	2	0	2,5	8	3
	China	1	1	0	1	0	0
Trade unions	Germany	2	2	0	2	0	0
	Other	1	1	0	0,5	0	3
Government	Germany	2	2	0	3	0	11
Int. organizations	Other	2	2	0	1,5	0	0
Consultancies	Germany	1	1	0	0,5	0	0
	Other	3	3	0	2,5	0	0
Business associations	Germany	2	2	0	2	0	0
<b>Stakeholder data:</b>		<b>23</b>	<b>23</b>	<b>1</b>	<b>23,5</b>	<b>8</b>	<b>38</b>

<b>Total:</b>	<b>71</b>	<b>47</b>	<b>52</b>	<b>61,5</b>	<b>188</b>	<b>85</b>
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\*Several interview partners were interviewed more than once. Some of the interviews were led as group interviews.

\*\*Fomal interviews were audio recorded and transcribed.

\*\*\*Informal interviews were captured in field notes.

Table 2: Overview of the data (own table).

Organization	Location	CSR managers	Buyers	Factory managers	Workers	Others	Total
Retail Group	Germany	7	3			2	12
Shoe Import	Germany	2	3				5
	China	2	5				7
Manufacturers	China			3	10	1	14
Material suppliers	China			3	4	3	10
Stakeholders	Germany					12	12
	China					2	2
	Other					9	9
		<b>11</b>	<b>11</b>	<b>6</b>	<b>14</b>	<b>29</b>	<b>71</b>

Table 3: Overview of interview partners (formal and informal interviews) (own table).

Second-order themes	First-order codes and representative data
<b>Conditions favoring proactive paradox response in the German NBS</b>	
<b>Political system encourages voluntary regulation</b>	<b>State interference and commitment to CSR leads to voluntary regulation of wages in global value chains</b>
	<i>"If only in the context of the German Textile Alliance, but there it was decided that this year one mandatory initiative in the area (of living wages is demanded) and I believe for this reason now everyone is waiting what kind of objectives the firms are setting themselves" (Retail Group1_11).</i>
<b>Financial system and ethics reinforce each other</b>	<b>Organizations see ethical business conduct as competitive advantage on the financial market</b>
	<i>"We want to become the ethically impeccable alternative to Amazon" (RetailGroup_CEO at 2018 press conference for the annual financial statement).</i>
<b>Skill development and labor system confronts organizations</b>	<b>Strong civil society and trade unions lead to pressure on organizations to prioritize living wage implementation</b>
	<i>"So and then naturally came this learning process, which was fueled by forces of civil society. We actually got some kind of, let me say, shit storm as one would say today, back then it was a negative report in "Kontraste" (German TV program)" (RetailGroup5).</i>
	<i>"It (the working group in the German Textile Alliance) was called living wages and is now called social standards and living wages (...) and was founded by NGOs" (RetailGroup1).</i>
<b>Cultural system fosters ethical business</b>	<b>Norms and values lead to strong trust in authorities, respect for law and its enforcement, and willingness to conduct ethical business</b>
	<i>"This is legally binding (the minimum wage legislation). I cannot stand, if legal things are not complied with 100%" (Retail Group1_114).</i>
	<i>"(...) to place this strategic topic on the agenda and then to implement, yes, it is a challenge to set it on the agenda and then to implement it in accordance with my own standards" (RetailGroup1_11).</i>
<b>Conditions favoring defensive paradox response in the Chinese NBS</b>	
<b>Political system fosters corruption</b>	<b>Corruption of political system leads to no enforcement of regulation regarding wages</b>
	<i>"But they still (despite the legislation saying otherwise) have -- like let's say one month, two-day rest, means they should work 29 days or 28 days (...). And each day, they have for three hours overtime. I mean, eight hours plus three hours. This is very normal of factories in China" (ShoeImport2_12).</i>
	<b>Out-dated regulation leads to lacking social security of migrant workers</b>
	<i>"This is the last status and this is, simply put, very clear it is for the government to do something, because it is not feasible to the majority of the migrant workers. (...) They wanted to have control and regulate people and therefore there was - you also didn't have a passport or any identification at all, as you were only allowed to stay in your province. You were not allowed to go anywhere else and look for a job. This only got looser in the 90s, that the people, because they wanted to have that economic growth, that they were allowed to travel within China. However, such laws still base on this old understanding" (ShoeImport1_12).</i>
<b>Financial system aggravates long-term security</b>	<b>Harder financial access leads to inability to prioritize non-economic and long-term goals</b>
	<i>"Yes, also this (overtime compensation) is an endeavor, where we have not had any success, because it is simply a too heavy financial burden for the factories, if they have to pay twice, actually twice, or three times on a Sunday. We have realized that this is something, where we 100% cannot change anything, overtime and it exists and it exists beyond the legal minimum" (ShoeImport1_12).</i>
	<b>Lack of insolvency proceedings leads to inability to take financial risks and long-term investment</b>
	<i>"Many factories went bankrupt. Especially for material suppliers it is hard, for PU (synthetic leather) and dying. They get closed down due to pollution. Closing for one month for them means they go bankrupt. There have been suicides by factory owners. Going bankrupt means losing your face" (Manufacturer1).</i>
	<b>Lacking trade union structure and civil society leads to lacking pressure regarding labor issues</b>

<b>Skill development and labor system does not pressure organizations</b>	<i>"It is really difficult here in China in general. I don't know of any active trade union in any of our factories. Which however, I believe, really isn't special for bad or an indicator for worse factories in China, but because a strong trade union simply doesn't exist. The government, you know about that, regulated or determines and does not give room for smaller honest trade unions, which could compete with them. I don't know of any" (ShoeImport1_12).</i>
	<b>Skill development leads to particular attitude towards hard work and overtime</b>
	<i>"Overtime is the issue in China. And that is related to wages as workers choose to do overtime. They are not always forced to do that (work overtime) but they like to do it in order to get better wages" (RetailGroup6).</i>
<b>Cultural system fosters willingness to enter corruption</b>	<b>Lacking trust in authorities leads to less security regarding the future and more willingness to enter corruption</b>
	<i>"Although now, however, if it takes place this arbitrarily, my work is harder, because people have gotten more scared in the last year to hand out honest information. Because this arbitrariness (of the government) in case of violations has become much bigger. You don't have any guidance any more to get an idea (of what is going to happen in case of violation). So that makes honesty or an honest and transparent relationship a lot more difficult" (ShoeImport1_11).</i>
<b>Differing interpretations of BSCI audits as a paradox management practice</b>	
<b>Proactive interpretation in the German NBS</b>	<b>Living wages as mandatory element of BSCI audits</b>
	<i>"As I said, the topic of working hours will be a focus issue in the next year and wages, too, so that they are creating first documents that one can give to suppliers and factories in order to support them" (RetailGroup1_11).</i>
<b>Defensive interpretation in the Chinese NBS</b>	<b>Forging of BSCI audit data</b>
	<i>"In every single BSCI report that I read it says that workers are payed on an hourly basis and they get overtime compensation and three times on weekends (...) so then I got to see the real documents. (...) In not a single factory, that I - is this the ideal condition, how it is supposed to be according to the good Chinese labor law" (ShoeImport1_11).</i>
<b>Dictating standards within NBS</b>	<b>Dictating proactive paradox responses</b>
	<i>"Well, we do not dictate in the sense you have to do that and that, because we do not know the factory personally, but we agree for the supplier to deliver us an action plan, how he wants to solve the problem. (...) In the next step, it is either checked through a new audit and, depending on the result, or one trusts that they really do it that way" (RetailGroup7).</i>
	<b>Dictating defensive paradox responses</b>
	<i>"As the boss of the factory, my first concern is that one should satisfy the customers' requirements. So as the customer has such a requirement, I have to take the decision to conduct this audit" (Material Supplier1).</i>
<b>Missing spillover of interpretation across NBS</b>	<b>BSCI system "breaks" along the value chain</b>
	<i>"I always say 'Now it's not BSCI documents, it's real documents' and such sentences make me sad of course, because I really like the BSCI as a system. I think it is through and through a good catalogue of values, but in China, through the entire corruption it has gone downhill" (ShoeImport1_11).</i>

Table 4: Second-order themes, first-order codes, and representative data (own table).

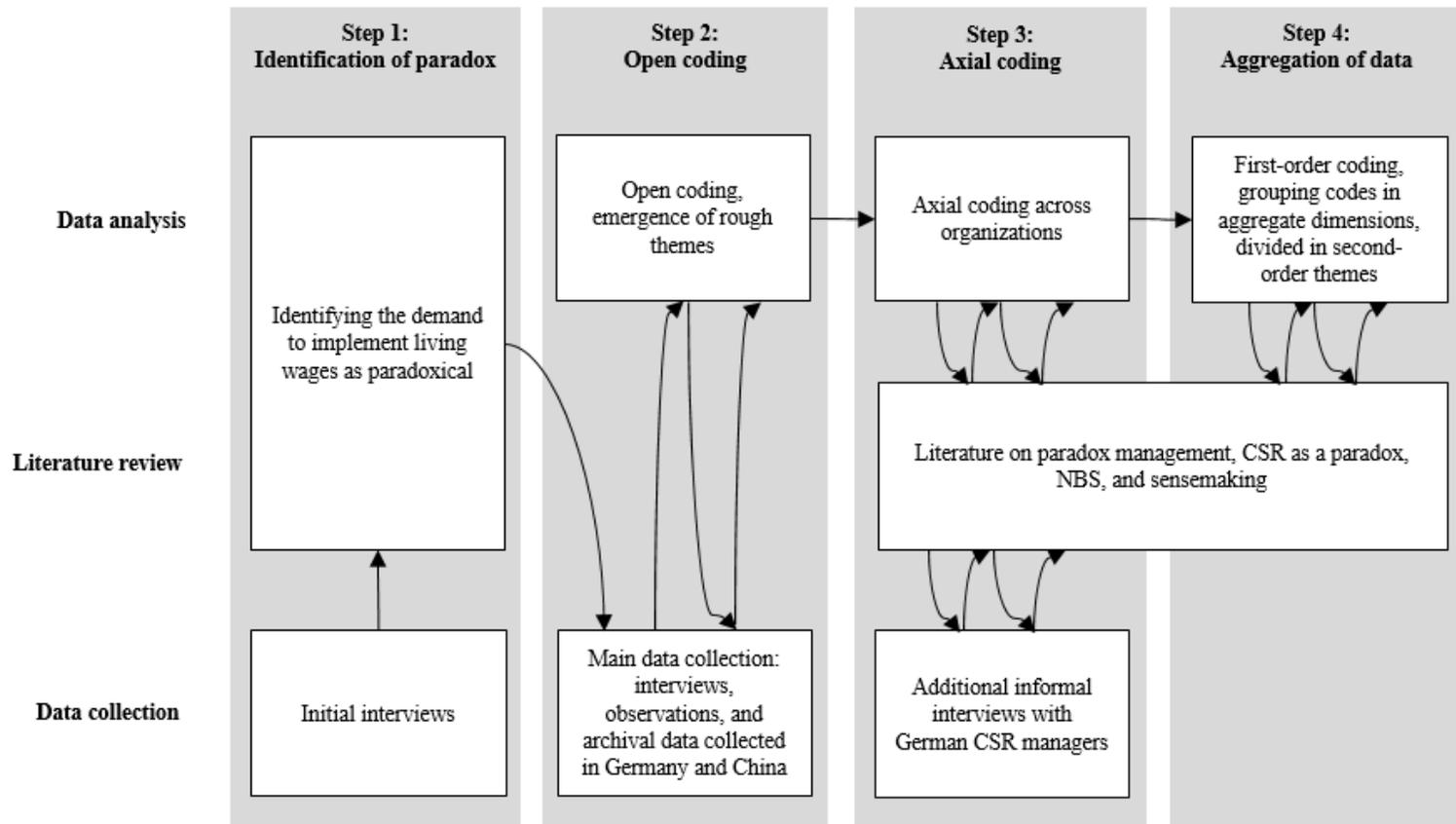


Figure 1: Data analysis (own figure).

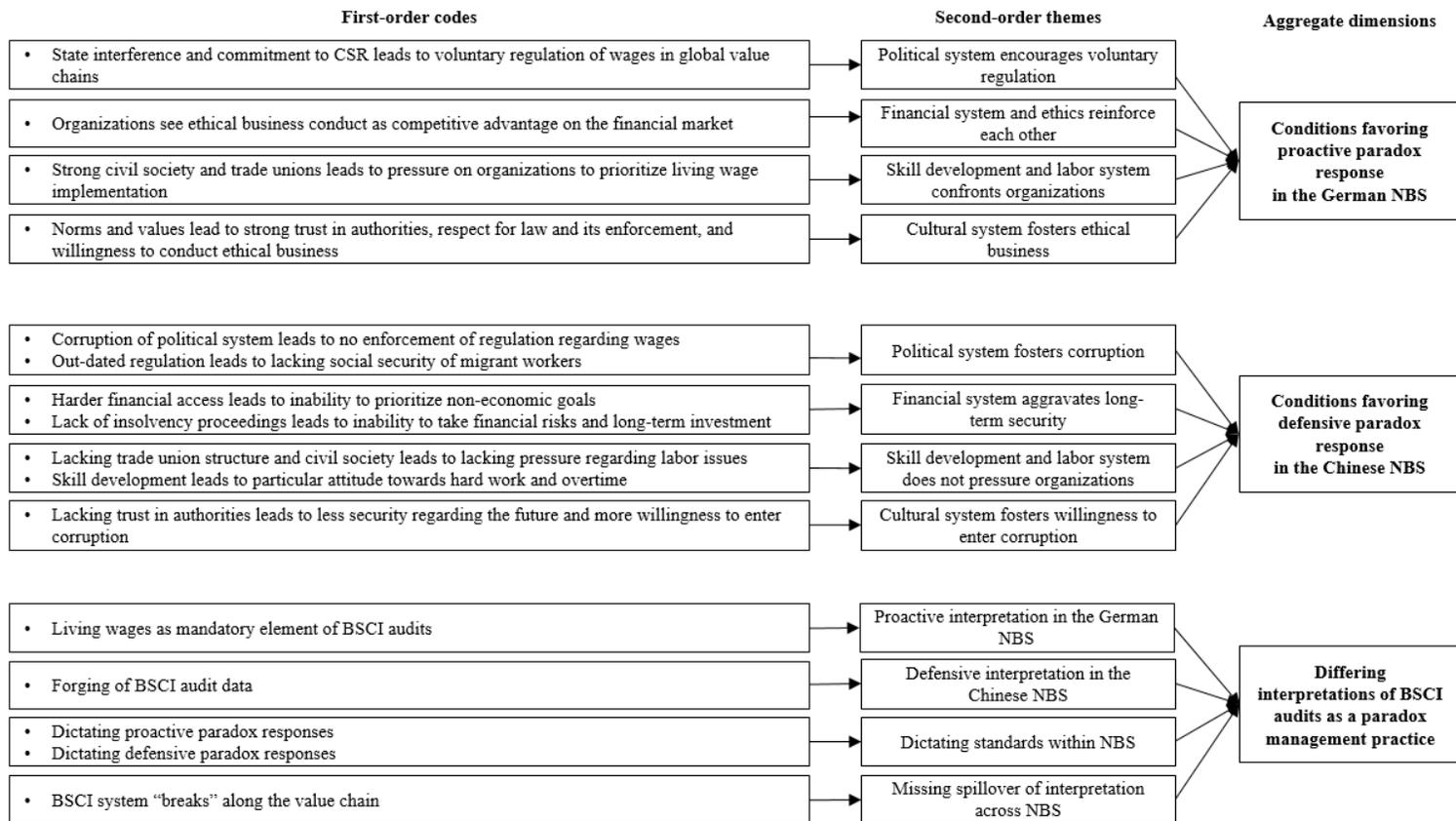


Figure 2: Data structure (own figure).

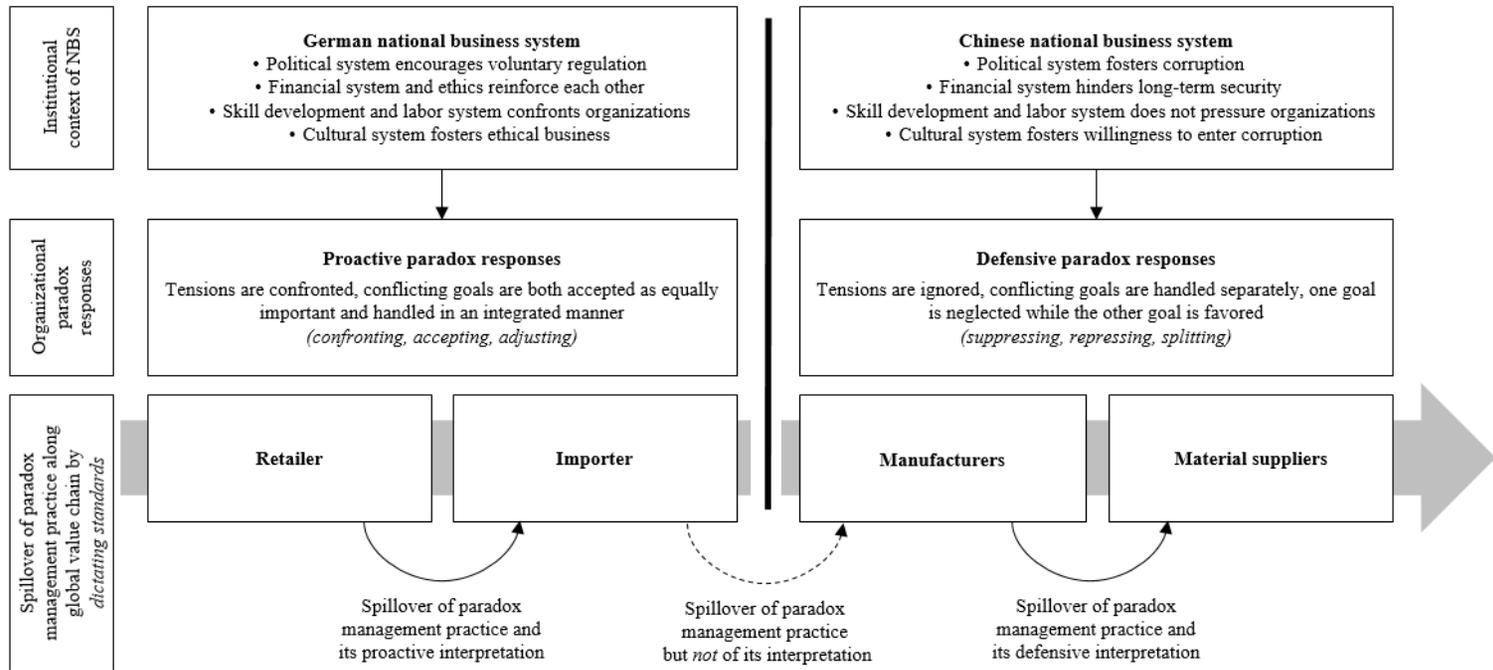


Figure 3: Summary of findings (own figure).

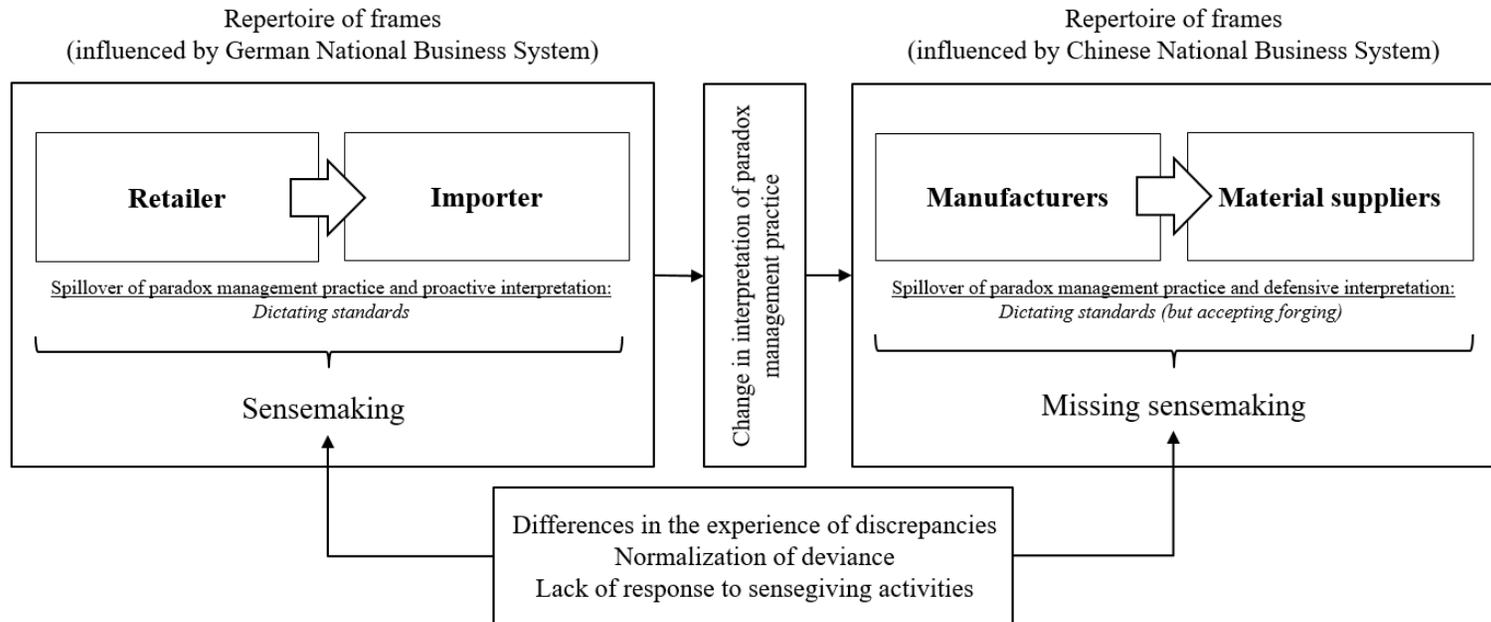


Figure 4: A sensemaking model of inter-organizational responses to paradox (own figure).

## APPENDIX

### *Appendix 1: Interview guide*

- Thanks and introduction of interviewer and research project
- Anonymity: If it is ok with you, I would like to record the interview. I am planning to use the data for scientific publications, however all personal information will be completely anonymized. The record can be deleted at all times.
- The interview:
  - Order: Introduction of yourself and organization, your global value chain, living wages as problem and solutions, wrap up
  - Will last about 60 minutes, open questions, there is no strict order of questions

<b>Phase</b>	<b>Guiding questions</b>	<b>Focusing questions</b>
<i>Introduction</i>	Please introduce yourself and your position at your company!	What are everyday challenges? When does your job get tricky? Where are tensions? How do you deal with them?
<i>The global value chain and living wage issue</i>	Can you please describe the global value chain you are part of? How do relationships to your value chain partners look like?	How do you collaborate with clients/suppliers in everyday life? What is difficult? How do you deal with that?
	When do living wages play a role in your job?	When did you first come across the living wage topic? What was difficult in the past about living wages? How did you deal with that?
	How do you do the wage calculation when you do your assessments?	How are the wages in the factories you work with?
	Would you say the Chinese footwear industry is at risk for poverty wages? Why?	What is special about the Chinese footwear industry in comparison to other industries/countries?
<i>Solutions to living wage implementation</i>	What solutions do you implement for workers' wages to be increased? Why? Which measures do you rather not take? Why not?	How do you use the BSCI living wage audits? What is difficult? How do you deal with that?
	Which actors are relevant to improve wages? How do you collaborate with them? What is difficult? How do you deal with that?	What is your role as importer to improve wages? Which roles do the clients, suppliers, governments, NGOs, trade unions, BSCI play?
<i>Wrap up and outlook</i>	How do you estimate the future importance of the topic?	Would you like to add/stress anything?

*Appendix 2: Anonymization used in the data*

<b>Anonymization</b>	<b>Detailed description</b>	<b>Location</b>
I	Interviewer	Germany
Retail Group	German retailer	Germany
Retail Group1	CSR manager at Retail Group	Germany
Retail Group2	CSR manager at Retail Group	Germany
Retail Group3	CSR manager at Retail Group	Germany
Retail Group4	Head of CSR department at Retail Group	Germany
Retail Group5	Head of CSR department at Retail Group	Germany
Subsidiary1	Subsidiary of Retail Group, brand	Germany
Retail Group6	Head of CSR department at Subsidiary1	Germany
Retail Group7	CSR manager at Subsidiary1	Germany
Retail Group8	Buyer at Subsidiary1	Germany
Retail Group9	Buyer at Subsidiary1	Germany
Retail Group10	Buyer at Subsidiary1	Germany
Subsidiary2	Subsidiary of Retail Group, logistics company	Germany
Subsidiary3	Subsidiary of Retail Group, brand	Germany
Subsidiary4	Subsidiary of Retail Group, sustainability consultancy	Germany
Retail Group11	Consultant at Subsidiary4	Germany
Shoe Import	German importing firm	Germany/China
Shoe Import1	Head of CSR department at Shoe Import	Germany/China
Shoe Import2	CSR manager at Shoe Import	China
Shoe Import3	CSR manager at Shoe Import, chemicals manager	Germany
Shoe Import4	Capacity manager at Shoe Import, supplier relations	Germany
Shoe Import5	Key account manager at Shoe Import, supplier relations	Germany
Shoe Import6	Quality manager at Shoe Import, supplier relations	China
Shoe Import7	Merchandiser at Shoe Import, supplier relations	China
Shoe Import8	Key account assistant at Shoe Import, supplier relations	Germany
Shoe Import9	CSR manager at Shoe Import, chemicals manager	China

Shoe Import10	Quality manager at Shoe Import, supplier relations	China
Shoe Import11	Key account manager at Shoe Import, supplier relations	China
Company2	Client of Shoe Import (other than Retail Group)	Germany
Company2a	Client of Shoe Import (other than Retail Group)	Germany
Company2_1	CSR manager at Company2a	Germany
Company2_2	CSR manager at Company2a	Germany
Company2b	Client of Shoe Import (other than Retail Group)	Germany
Company2_3	CSR manager at Company2b	Germany
Company2_4	CSR manager at Company2b	Germany
Company2c	Client of Shoe Import (other than Retail Group)	Austria
Company3	Client of Shoe Import (other than Retail Group)	UK
Company4	Competitor of Retail Group, member of German Textile Alliance	Germany
Company5	Competitor of Retail Group, member of German Textile Alliance	Germany
Company5_1	CSR manager at Company 5, member of German Textile Alliance	Germany
Company5_2	CSR manager at Company 5, founder of ACT, living wage expert	Germany
Company6	Client of Shoe Import (other than Retail Group)	Germany
Gov1	Advisor at German Textile Alliance	Germany
NGO2	Advisor at NGO2, member of German Textile Alliance	Germany
NGO1	Advisor at NGO1, member of German Textile Alliance	Germany
Consultant1	Consultant at Consultancy2, living wage expert	USA
OECD1	Advisor at OECD, living wage expert	Netherlands
ILO1	Advisor at ILO, living wage expert	Switzerland
Trade union1	Advisor at IndustriALL, international trade union	UK
Business association1	Advisor at business association1 (Retail Group is a member), member of German Textile Alliance	Germany
NGO4, NGO4(GER)	Advisor at NGO4, living wage expert	India
NGO5	Advisor at NGO5, member of German Textile Alliance	Germany
NGO3	Advisor at NGO3, China expert	China
MSI1	Founder at ACT, living wage expert	UK
BSCI1	Advisor at BSCI	Germany
BSCI2	Head of German office at BSCI	Germany

BSCI3	Head of China office at BSCI	China
MSI2	Advisor at ACT, member of German Textile Alliance	Germany
Consultant2	Consultant at Consultancy1, living wage expert	Germany
Consultant3	Consultant at Consultancy1, living wage expert	India
MSI3	Advisor at ACT, living wage expert	Netherlands
Gov2	Advisor at German Textile Alliance	Germany
Gov3	Advisor at German Textile Alliance	Germany
Consultant4	Consultant at Consultancy3, living wage expert	UK
MSI4	Advisor at Fair Wear Foundation, living wage expert	Netherlands
Trade union2	Advisor at Deutscher Gewerkschaftsbund, German trade union alliance	Germany
Trade union3	Advisor at Deutscher Gewerkschaftsbund, German trade union alliance, member of German Textile Alliance	Germany
Business association2	Advisor at business association2 (Retail Group is a member), China expert	Germany
Material Supplier	Material supplier for Manufacturers 1, 2, and 3	China
Material Supplier1	Factory manager at Material Supplier 1	China
Material Supplier2	Factory manager (production manager) at Material Supplier 1	China
Material Supplier3	Human resources manager at Material Supplier1	China
Material Supplier4	Accounting manager at Material Supplier1	China
Worker1	Worker (line leader) at Material Supplier1	China
Worker2	Worker at Material Supplier1	China
Material Supplier	Material supplier for Shoe Import	China
Material Supplier5	Factory manager (vice president) at Material Supplier 2	China
Worker3	Worker at Material Supplier2	China
Worker4	Worker at Material Supplier2	China
Material Supplier6	Trader for Material Supplier2	China
Material Supplier7	Trader for Material Supplier2	China
Manufacturer	Manufacturer for Shoe Import	China
Manufacturer1	Factory manager at Manufacturer1	China
Manufacturer2	Assistant of factory manager at Manufacturer1	China
Worker5	Worker at Manufacturer1	China

Worker6	Worker at Manufacturer1	China
Manufacturer	Manufacturer for Shoe Import	China
Manufacturer3	Factory manager at Manufacturer2	China
Manufacturer4	Marketing manager at Manufacturer2	China
Worker7	Worker at Manufacturer2	China
Worker8	Worker at Manufacturer2	China
Worker9	Worker at Manufacturer2	China
Trader	Trader for Manufacturer2	China
Manufacturer5	Trader for Manufacturer2	China
Manufacturer6	Trader for Manufacturer2	China
Consultant5	Consultant at Subsidiary4, trainer, auditor for Retail Group	China/Germany
Consultant6	Consultant at Subsidiary4, trainer, auditor for Retail Group	China
Audit Company1	Audit company for Retail Group	Germany
Dying Factory1	Dying factory for Material Supplier1 and Manufacturer2	China
Importer2	Competitor of Shoe Import	China
Manufacturer5	Manufacturer for Shoe Import	China

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