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How National Business Systems Influence the Diffusion of Paradox Management Practices in Global Value Chains

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Abstract

This study discusses the relationship between inter-organizational paradox management and national business systems (NBS). Based on case study evidence related to a global value chain in the footwear industry between Germany and China, we analyze how the different businesses in the chain coped with the paradoxical tension between providing living wages to workers and upholding financial performance. Our findings show that all firms applied the same policy (i.e. the Business Social Compliance Initiative, BSCI) in order to cope with the paradox. This policy was translated into proactive paradox management practices among German businesses but elicited defensive practices from their Chinese business partners. We show how the different institutional structures underlying the German and Chinese NBS influenced these practices. On the basis of these results we argue (1) that the inter-organizational diffusion of paradox management practices across countries depends on whether an NBS's institutional structure can provide enough pressure points for firms to interpret adopted policies in ways that enable proactive paradox management practices, and (2) that the theorization of the impact of cross-national distance on paradox management can be enhanced through the adoption of a multidimensional approach to institutional variety that extends beyond culture-based arguments.

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

INTRODUCTION

Increasingly complex environments and global competition mean that organizations are exposed to more paradoxical tensions than they were only a few decades ago. Paradoxes are defined as two conflicting goals that exist simultaneously. These goals contradict each other and yet are “two sides of the same coin” in that they are interrelated and co-exist over time (Lewis, 2000, p. 761). The literature agrees that organizations cope with paradoxical tensions through proactive or defensive paradox management practices, i.e. reactions to contradictions. Through such practices organizations socially construct paradoxes by further balancing or unbalancing the contradictory elements (Jarzabkowski & Lê, 2017; Lewis, 2000).

Surprisingly little research has been conducted on how paradox management takes place in *inter-organizational* contexts (Jarzabkowski, Bednarek, Chalkias, & Cacciatori, 2019). While the literature has examined how paradoxes unfold as part of competition or cross-sector partnerships (e.g. Sharma & Bansal, 2017; Stadtler & van Wassenhove, 2016), the ways in which paradox management practices evolve inter-organizationally between firms along global value chains has not yet been analyzed. Analyzing paradox management in inter-organizational contexts matters because organizations are connected to an increasing number of business partners through outsourcing and division of labor along global value chains. Together with these partners, organizations face paradoxes that are often present throughout entire industries and value chains. Therefore, organizations that collaborate along a value chain need to find joint solutions to paradoxes. Today’s grand challenges, including poverty and climate change, present society with large-scale paradoxes and confront many organizations at once (Jarzabkowski et al., 2019). As Schad et al. (2016) argue, there is therefore a need to explore the relationships among actors in organizational paradox.

Prior research has emphasized that interpretative contexts (Knight & Paroutis, 2017), and especially cultural contexts (Keller, Loewenstein, & Yan, 2017; Prashantham & Eranova, 2018),

influence the ways in which different organizations handle paradox. 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. Our interest, therefore, is in how organizations that operate in different institutional contexts but collaborate in a global value chain and are confronted with the same paradox interact in their ways of managing paradox. We draw on the ‘national business systems’ (NBS) literature (Whitley, 1992, 1999) to theorize differences in institutional contexts. In particular, we are interested in how paradox management practices diffuse across different institutional contexts along global value chains. Our paper thus aims to answer the following two research questions: *How do paradox management practices diffuse between organizations that are part of different national business systems yet belong to a single global value chain?* (RQ1); and – since answering this question entails another – *How does a country’s national business system affect organizations’ paradox management?* (RQ2)

We build on a qualitative single case study (Yin, 2014) of a global value chain related to the footwear industry (from Germany to China). The empirical context of our study links to corporate social responsibility (CSR), which often confronts organizations with paradoxical tensions (Hahn, Pinkse, Preuss, & Figge, 2015). We analyze how organizations within the footwear value chain handle the paradoxical demands of providing living wages for workers while at the same time reducing unit prices. This demand is paradoxical for organizations since it involves 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 all organizations along the global value chain addressed the paradox by adopting the same policy, i.e. living wage specifications through the *Business Social Compliance Initiative* (BSCI). The BSCI policy was dictated by the German retailer and was translated into different paradox management practices along the global value chain. The proactive and defensive nature of

these practices was impacted by the respective characteristics of the German and Chinese NBS. While the German retailer and the import agent translated the BSCI into proactive paradox management practices by confronting, accepting and adjusting the conflicting goals, the Chinese manufacturers and material suppliers translated the BSCI into defensive paradox management practices by suppressing and splitting the two conflicting goals. Our data shows that even though the retailer managed to dictate the BSCI as a policy to the other organizations in the chain, they did not manage to pass on the application of the BSCI as a proactive paradox management practice.

Our findings make two contributions to the literature. First, we extend recent discussions of inter-organizational paradox management (e.g. Jarzabkowski et al., 2019) by showing how NBS impact the diffusion of paradox management practices across countries. We argue that diffusion is influenced by (a) whether or not an NBS provides pressure points that make firms recognize both elements of a paradox, and (b) the level of contagiousness that is associated with the policy that is adopted to cope with paradoxical demands. We suggest that the diffusion of proactive paradox management practices can be impeded by “paradox decoupling”. Paradox decoupling denotes a situation in which a policy with low levels of contagiousness (and therefore in need of multiple pressure points if it is to be substantively adopted) becomes embedded in an NBS that is unable to offer such pressure points. Second, we contribute to the paradox literature by showing that paradox management is influenced by a country’s institutional structure, which includes more than just culture. Previous literature has examined the influence of culture on paradox handling, especially the effect of Asian culture on paradox handling (Keller et al., 2017; Prashantham & Eranova, 2018; Zhang, Waldman, Han, & Li, 2015). We add to this literature by showing the relevance of theorizing cross-national distance in a multidimensional way when discussing broader societal influences on firm’s handling of paradoxes. These two contributions integrate the NBS literature (e.g., Whitley 1992, 1999) with the discussion of paradox (management) – a link that has hitherto been neglected.

LITERATURE REVIEW AND THEORETICAL BACKGROUND

(Inter-organizational) Paradox Management

Paradoxes are commonly defined as “contradictory yet interrelated elements that exist simultaneously and persist over time” (Smith & Lewis, 2011, p. 382). The literature has looked at how organizations handle paradox, distinguishing between defensive and proactive paradox management practices. Defensive paradox management leads to the reproduction of paradoxical tensions through e.g.: (a) splitting, whereby the two contradictory elements are separated temporally or spatially; (b) repressing, which refers to denial of the entire paradox; and (c) suppressing, where one side of the paradox is ignored in favor of the other (Jarzabkowski & Lê, 2017; Lewis, 2000). Proactive paradox management does not remove or resolve a paradox but embraces it in a more effective manner (Lewis, 2000) through e.g.: (a) accepting, i.e. understanding contradictions as a natural condition of work; (b) confronting, where contradictory elements are critically discussed; and (c) adjusting, where organizations accept both contradictory elements as equally important and mutually dependent (Jarzabkowski, Lê, & van de Ven, 2013; Lewis, 2000).

In this study we distinguish paradox management practices from policies that are adopted to cope with paradoxical demands. While paradox management *practices* (also referred to as ‘paradox responses’, Jarzabkowski & Lê, 2017; Lewis, 2000) are actual reactions to conflicting demands that are either proactive or defensive, *policies* reflect formally adopted standards and procedures (Westphal & Zajac, 2001) that provide a platform for paradox management practices to occur. In other words, policies are translated into proactive or defensive paradox management practices. One area in which policies are often adopted to cope with paradoxical demands is CSR. CSR confronts organizations with tensions because it sets non-economic (social and environmental) objectives that often contradict traditional financial goals (Hahn, Preuss, Pinkse, & Figge, 2014). CSR thus constitutes a paradox of performing (Smith & Lewis, 2011, p. 383), which relates to the plurality of stakeholder interests and their competing goals (Smith, 2014).

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 contradictory *inter*-organizational demands, e.g. throughout entire value chains (Xiao, Wilhelm, van der Vaart, & van Donk, 2019). The literature has predominantly looked at paradox on a micro level (e.g. Calabretta, Gemser, & Wijnberg, 2017; Cuganesan, 2017; Jarzabkowski & Lê, 2017; Miron-Spektor, Ingram, Keller, Smith, & Lewis, 2018; Smith, 2014), on a meso level (e.g. Jay, 2013; Knight & Paroutis, 2017; Sheep, Fairhurst, & Khazanchi, 2017), and at how these levels interrelate (e.g. Abdallah, Denis, & Langley, 2011; Hahn et al., 2015; Jarzabkowski et al., 2013). In order to adopt an integrative view of different levels of paradox, Hahn et al. (2015) argue that managers need to first acknowledge the paradoxical tensions in order to achieve "synthesis" or novel perspectives on the opposing poles and different levels of a paradox, thereby offering a frame that can hold both paradoxical elements across levels. Jarzabkowski et al. (2013) show that paradoxes on different levels can co-evolve with responses that embed them on higher and lower levels.

There has been little macro-level research on how inter-organizational management of paradox takes place (Jarzabkowski et al., 2019). Our study therefore addresses two research gaps in this context. First, while scholars have studied how paradox unfolds within different inter-organizational settings such as cross-sector partnerships (Sharma & Bansal, 2017; Stadtler & van Wassenhove, 2016), research has scarcely examined how paradox management practices are diffused among a set of organizations that jointly face a certain tension (see RQ1). By 'diffusion' we mean the ways in which paradox management practices spread within a given social system (Colvays & Jonsson, 2011), in our case a global value chain. Studying such practice diffusion (or lack thereof) is vital to enhance our understanding of why organizations within a social system respond in similar or different ways to paradoxical demands. Second, while the literature has looked

at how cultural context influences paradox handling in different institutional contexts, especially how Asian culture enables proactive paradox management (Keller et al., 2017; Prashantham & Eranova, 2018; Zhang et al., 2015), surprisingly little research has looked at how other dimensions of a country's institutional structure (i.e. its political, financial, and labor systems) influence paradox management (see RQ2). Although scholarly work has emphasized the relevance of Asian cultures' yin-yang mindset for paradox management (Zhang et al., 2015), it has not shown how Asian countries' political, financial and labor systems (Whitley, 1992, 1999) impact paradox handling.

National Business Systems

We conceptualize institutional context through the notion of NBS as it theorizes the 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 (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 on the variety of national institutional frameworks that organizations operate in and the effects these frameworks have on organizations (Hotho, 2014). The NBS approach recognizes that various forms of capitalism have emerged in different institutional contexts (see ‘varieties of capitalism’, Hall & Soskice, 2013). While the NBS literature has been used extensively to study and compare the institutional contexts in which business activities are embedded (e.g. Matten & Moon, 2008), it has not hitherto been mobilized to research paradox management. This is surprising, since the NBS literature complements culture-focused arguments that are already part of recent paradox literature (Keller et al., 2015; Prashantham & Eranova, 2018).

The NBS literature suggests that institutional context comprises four sub-systems (Whitley, 1992, 1999): (1) the political system, which refers to the power of the state, describing how willing and capable the state is to share risks with private companies and to what extent it interferes in social

and economic activity through regulation; (2) the financial system, which refers to the major financial sources for business organizations, which can be the stock market, investors, or tax revenue in the case of state-owned firms; (3) the skill development and labor system, which refers to the ways in which human resources are developed and regulated, taking into account a country's post-secondary school system and the way the labor market is governed, i.e. through employment laws and trade unions (Whitley, 1999); and (4) the cultural system, which refers to culturally shaped norms, values, and assumptions about society, business, and government in an NBS that determine the prevalent collective identities of the workforce in a given country and their degree of trust in authorities, which is largely affected by the reliability of public institutions.

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

The Chinese NBS has the following characteristics: (1) a political system of authoritarian capitalism (Witt & Redding, 2013) wherein the Communist Party of China (CPC) is powerful (Hofman, Moon, & Wu, 2017); (2) the financial system is split, with state-owned banks offering financial resources for firms that are party-owned while financial access is much harder for privately-owned companies (Hofman et al., 2017; Witt & Redding, 2014), including the five private Chinese firms discussed in this paper; (3) skill development rests on a relatively weak education system (Witt & Redding, 2014), which leads to a shortage of skills (Witt & Redding, 2014), while

the labor system depends on the party-owned trade union, the All-Chinese Federation of Trade Unions (ACFTU), which mainly represents the interests of the CPC (Hofman et al., 2017); (4) the cultural system is defined by a low level of trust in authorities, which supports the institutionalization of corruption (Whitley, 1999, p. 52; Witt & Redding, 2014). Since the yin-yang thinking is rooted in Eastern philosophy, Chinese culture facilitates paradoxical thinking (Zhang et al., 2015).

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Table 1 about here

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METHOD AND CASE SETTING

A case study research design enables an in-depth analysis of complex settings (Yin, 2014). The global footwear industry offers a suitable research context as it has recently been confronted with the living wage paradox. For brands and retailers in this industry, the pressure from NGOs to implement living wages is a performance paradox (Smith & Lewis, 2011), since it collides with their established goal of minimizing unit prices. We selected the living wage paradox as a case because it is a paradox that confronts several organizations at once and thus requires inter-organizational paradox handling despite geographical distance and different institutional contexts.

Research Context

The initial phase of our data collection was conducted in Germany with two organizations that form the first two stages of the global value chain. The *retailer* (referred to as *Retail Group*) has a long-standing tradition as one of Germany’s established retail companies. Retail Group has sourced products from overseas factories since the 1980s. They first established a CSR department in the 1990s to address social and environmental conditions in its value chains. Despite its long tradition, Retail Group remains a medium-sized enterprise, which also influences its bargaining power with suppliers. While other retailers have considerable bargaining power due to using large shares of their suppliers’ capacities, Retail Group’s orders usually only comprise five percent or less of their

suppliers' capacities. We also analyzed an *importing firm* (referred to as *Shoe Import*) with offices in both Germany and China. Shoe Import is a small-sized enterprise mainly specialized in trading footwear products. Since the early 1990s the firm has imported shoes from countries including India, Vietnam and China, with China being their biggest producing market.

Retail Group and Shoe Import lifted the topic of living wages onto their CSR agendas in early 2015 and in 2016 respectively. 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 according to a certain threshold of quality of life (Carr, Parker, Arrowsmith, & Watters, 2015). For Retail Group and Shoe Import the ambition of implementing living wages was paradoxical because 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 CSR in their global value chains through the BSCI, which is a social auditing standard. BSCI members are obliged to pay at least the local legal minimum wage to workers in their value chains and comply with local rules on maximum working hours, although buyer firms (in our case Retail Group) can also demand the inclusion of living wages. Retail Group did not directly subsidize living wages at manufacturer or suppliers, however the company was aware that living wage implementation would also affect its own cost structure (e.g. because of increased unit costs). At the time of our study, auditors were not required to verify living wage data during every audit. However, all factories had to have relevant living wage data available, as they did not know beforehand whether auditors would ask for it. The BSCI can therefore be used as a tool to push the responsibility for living wages down the value chain. Complying with the BSCI can help an organization to cope with the living wage paradox if organizational actors translate the BSCI policy into proactive paradox management practices (i.e. if achieving both a living wage and financial performance are considered equally important).

The other phase 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, which was opened in the province of Guangdong in the early 2000s and employs both German and Chinese staff. We then moved to the province of Fujian, where we collected data with three *manufacturers*, all of whom 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 and, like the manufacturers, are private family businesses. While we are aware that our sample footwear value chain extends to other suppliers, dyers, and producers of raw materials, we decided to limit our data collection to 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).

Data Collection

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

Tables 2 and 3 about here

Interviews. In total we conducted 47 formal semi-structured interviews (see Online 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. These interviews helped us to understand the paradoxes involved and the organizations' paradox management practices. 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). We captured informal interviews through field notes. 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 practices within and between organizations, we asked Retail Group to connect us with their suppliers along one value chain in 2016. Since gaining access to suppliers was not easy, it took until 2017 to conduct our first interviews with employees of Shoe Import and to schedule factory visits in China. While we had sampled the textile and footwear industry theoretically since 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 with 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 both Germany and China, factory managers (n = 6) and workers (n = 14) of manufacturers and material suppliers in 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, because not recording helped to get interviewees to speak more freely (mostly in the case of factory managers and workers); and second, because recording was not possible when we conducted interviews in informal and loud settings. For instance, most worker interviews were conducted in proximity to the production lines in order to allow workers to meet their piece-rate objectives. 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 journeys. In addition to our interviews with professionals along the value chain, stakeholder interviews completed the data set (see Table 2). These mainly fulfilled the purpose of enabling us 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 (e.g., lunches, weekly meetings, telephone conferences) and events (e.g. panel discussions), though without actively participating in these activities. In addition we spent five weeks in March and April of 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. Here we were able to observe meetings (e.g. business dinners), training sessions, audits, and factory tours. Through these observations we were able to learn more about the contradictory tensions the managers were facing and to observe first-hand their everyday responses to the living wage paradox. In total, this resulted in 188 hours of direct observation captured in 37 written field notes taken during or directly after the observations.

Archival data. Retail Group and Shoe Import provided 47 mostly non-public documents for analysis, including 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 such as NGOs and international organizations.

Data Analysis

The data was analyzed using an open-ended theory-building approach that began during the data collection and involved several iterative cycles (Corbin & Strauss, 2015; Gioia, Corley, & Hamilton, 2013). We followed a four-step process of data analysis as described below (see Figure 1):

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Figure 1 about here

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Step 1 – Identification of paradox. In 2015 we conducted 11 interviews with CSR managers of Retail Group and their stakeholders to learn 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 obtained access to the value chain and collected more data, including 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). Initially 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). Two 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.

Step 3 – Axial coding. We began analyzing data across the different organizations in the value chain, applying constant comparison (Glaser & Strauss, 1967). With the codes allocated to one organization, we re-read the codes allocated to another organization, allotting new comparative axial codes. We first compared within and then across NBS. In order to enrich our axial codes we looked at observational data and reports in interviews from interactions across organizations (e.g. meetings, training sessions, and audits in which members from more than one organization participated), which further informed our inter-organizational perspective. 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 as proactive practices, and suppressing, repressing, and splitting as defensive practices (Jarzabkowski & Lê, 2017; Lewis, 2000). We 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. In total we assigned 57 axial codes (Strauss & Corbin, 1998). 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 then compared the descriptive codes with one another and further contrasted them with the literature. This yielded 19 first-order codes (van Maanen, 1979) (see Figure 2). Finally, we further grouped these first-order codes into 13 second-order themes as well as four aggregate dimensions. Throughout the entire analysis we developed an overview figure showing the relations between the different codes and dimensions in the data, which eventually resulted in Figure 3 ('Summary of Findings'). Each of the boxes in this figure can be backed with anchor data, which was copied below the graph while developing it and deleted later for purposes of readability. The codes and the model thus co-evolved during the analysis process.

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Figure 2 about here

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It is important to mention one limitation of our study. An inevitable feature of analyzing a global value chain is that the different companies in the chain do not operate at the same level of the chain. Hence, diverse approaches to paradox management can also be rooted in power and resource differences, as both can vary according to a firm's position in a value chain (Gereffi, 1994; Gereffi, Humphrey, & Sturgeon, 2005). While we cannot prove that differences in paradox management are exclusively influenced by the institutional conditions embedded in each NBS, our data shows that issues like corruption, financial planning, unionization and law enforcement were perceived as important in the context of paradox management by relevant actors. It is also vital to remember that Retail Group is not a large multinational firm with 'deep pockets' but a family business that did not have high-levels of bargaining power. In other words, there was no complete dependency relationship between organizations.

FINDINGS

Our findings first outline the nature of the living wage paradox (sub-section 1). We then describe how the BSCI policy was dictated down the value chain (sub-section 2), which highlight the inter-organizational dynamics. Next we look at how the German NBS created conditions that mostly enabled the BSCI policy to be translated into proactive paradox management practices (sub-section 3), while the Chinese NBS mostly fostered conditions for translation into defensive paradox management practices (sub-section 4). Figure 3 summarizes our findings.

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Figure 3 about here

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The Living Wage Paradox

The demand to implement living wages was paradoxical to all organizations in the global value chain. It was *contradicting* since it entailed raising costs, which went against the established logic of reducing unit prices.

“Raising wages is against the logic of reducing prices. Normally, the key accountants [in the buying department] have the license to do whatever they want. They dictate how business is done and manifested price steering.” (ShoeImport6)

For the German firms, implementing living wages entailed higher due diligence costs and a change in purchasing practices. They needed to accept higher unit prices (RetailGroup1). While they were in the process of changing their purchasing practices, a CSR manager of Retail Group described how it changed their price-setting:

"Let's say it bluntly, [until now] our buyers go to a store and say a product costs 25 Euros there, they say 'That's great, I want to offer it to my customers for the same price'. And then they [...] take a picture and tell the suppliers 'I would like you to produce this for 12 Euros' because they calculated a margin of 50%. This does not vary for order size. [For small orders] production without lower quality or subcontracting is not possible. [...] There is no sensibility with buyers here [for social conditions and wages in factories]. Having suppliers [...] do a calculation for a product, for wages, transport, material, [...] this is not a logic that our buyers know and can follow. [...] This needs to change now with new living wage demands." (Retail Group1 _II)

The Chinese manufacturers also saw this paradoxical contradiction as higher wages had direct negative impact on their margins:

"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." (Manufacturer5)

"If the client asks us that we have to increase the salary of the workers, then the clients have to first think about increasing the price of the order, yeah, 'cause, right now, he's saying the price goes down this year." (Manufacturer1)

At the same time, the two paradoxical elements of implementing living wages versus keeping up financial performance were *interrelated*, as both were necessary in order to ensure the long-term survival of the business relations of the organizations along the value chain. In Germany, the German Textile Alliance, a government-sponsored initiative, defined living wage implementation as a mandatory goal and therefore made it a necessary condition for Retail Group to keep business going in the long term. A representative from Retail Group, for instance, stated that the Alliance decided to have a "*mandatory initiative*" in the area of living wage implementation (RetailGroup1_I1). In China, meanwhile, living wages were seen as a client requirement and thus as a necessary condition to keep business going (Material Supplier1).

These tensions were *persistent* over time, since the paradox management practices implemented did not erase the paradox. Even after taking action on the paradox, one CSR manager at Retail Group described the situation as follows: *"We felt helpless in a sense, felt no action - no we did not have leverage"* (RetailGroup5). Managers at Shoe Import realized that the paradox would persist as long as they collaborated with low-cost producers in China: *"[...] our next conclusion was, ok, that's how it is, we won't change China, we want to stay in China"* (ShoeImport1_I2). In sum, contradiction, interrelatedness and persistence constitute a paradox (Smith & Lewis, 2011). The description of paradox management practices below shows that the paradox was socially constructed, as the managerial practices along the value chain reinforced the paradoxical contradictions and passed them on to the other organizations.

Paradox Management Along the Global Value Chain – Dictating the BSCI Policy

The BSCI was the policy adopted along the value chain in order to cope with the living wage paradox. The BSCI had been introduced by Retail Group several years before the living wage debate occurred. While the BSCI policy covers many areas related to labor rights, it was extended to also cover living wages in 2015. If implemented fully, the BSCI living wage policy would resolve the paradox in a proactive way: business operations had to be adjusted in such a way that the two conflicting goals were achieved at the same time (i.e. living wages were paid and financial performance was achieved). BSCI members like Retail Group and Shoe Import committed to entering into business relations only with audited suppliers or other BSCI members.

The compliance-driven nature of the BSCI policy influenced how it was diffused along the value chain. The main mechanism of diffusion employed was to dictate the policy. For instance, Retail Group enforced the BSCI along the chain by pressuring other actors:

"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)

Retail Group defined the BSCI as a precondition for suppliers to do business with them (RetailGroup5) and required its import agents to become BSCI members and to conduct relevant audits in the factories with which they collaborated. For instance, Retail Group stated: *"Shoe Import is a BSCI member. We have no troubles with them"* (Retail Group8). Shoe Import was equally aware that the BSCI was being dictated to them: *"We do BSCI audits because our clients require us to."* (Shoe Import1)

Dictating the BSCI was the dominant transfer mechanism of the policy throughout the entire value chain, with each party pushing the policy onto the next party further down the chain as a precondition for doing business. For instance, Shoe Import dictated the standard to the Chinese manufacturers in a very strict manner, paying close attention to details. During one audit we observed the following exchange between Shoe Import1, the auditor, and Manufacturer1:

Shoe Import1 asks the auditor [while going through documents provided by Manufacturer1 for the audit]: "Are these documents detailed enough?"

Auditor: "Yes, they are fine."

Shoe Import1 to Manufacturer1: "There is no date on this document. The BSCI requires you to have a date on the documents."

The manufacturers further dictated the BSCI to their material suppliers:

"Yeah, we have a lot of meetings with these different kinds of suppliers. And we give them the idea and give them pressure, you know, to improve the performance [...]. But at that time [when they first introduced the BSCI to the particular supplier], 2013, a lot of fails, we pushed, pushed." (Manufacturer5)

While dictating the BSCI worked well on paper, it invited different paradox management practices to respond to the living wage paradox throughout the value chain (as outlined in the following two sections). In other words, across NBS only the *policy* was dictated but not its translation into proactive paradox *practices*. CSR managers at Retail Group knew about this problem and blamed it on insufficient communication between their colleagues from the buying department and the suppliers:

"The buyers never get in touch with the factories. They do not visit them, they do not place orders on a factory level. This [close collaboration between buyers and suppliers] is a fantasy construct." (RetailGroup1_I1)

The BSCI itself saw the problem being based on intercultural communication along the value chain, not with their policy:

"Sometimes it's also a bit about how firms communicate with their business partners in the Far East. This is about intercultural communication, which goes completely wrong and that impacts all areas." (BSCI1)

Proactive Paradox Management Practices in the German National Business System

From our data we can see that the German NBS created conditions that influenced how Retail Group and Shoe Import translated the BSCI policy in order to handle the living wage paradox. They mostly responded to the paradoxical tension through proactive paradox management practices. As part of the German political system, the state encouraged voluntary regulation of wages and working conditions along global value chains. In particular, 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 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 treat the opposite poles of the living wage paradox – social justice vs. financial performance – with equal importance and in an integrated manner. This, in turn, enabled the two German firms to embed the BSCI policy into their due diligence and purchasing practices.

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 demands that organizations avoid reputational risks and plan long-term in order to gain access to capital. Financial market actors thus motivated organizations to be responsible players. Retail Group's CEO stated at the 2018 annual press conference: *"We want to become the ethically impeccable alternative to Amazon"* (RetailGroup1 _I15). Shoe Import, in their 2017 sustainability report, framed their social commitment similarly 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 and to proactively interpret the BSCI policy. Paying living wages and achieving financial performance

were not seen as mutually exclusive. Rather, both elements were adjusted in such a way that they reinforced 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." (Retail Group1_11)

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 loss of financial advantage. These costs were perceived to be higher than additional due diligence costs resulting from substantive implementation of the BSCI policy's demands.

The German cultural system comes with norms and values that encourage proactive paradox management by emphasizing trust in authorities as well as strong work and business ethics (Lane, 1997). Individuals within organizations, especially CSR managers, conduct responsible business to meet their own ethical standards and current as well as future legal requirements (Retail Group1_11). In our case managers therefore applied proactive paradox management practices such as confronting by entering into conflicts with other members of their organizations. Within Retail Group, one CSR manager confronted a buyer during a telephone conference as follows:

RetailGroup3: "You have to agree that the current audit system does not work. [...] The standards are too loose and nobody even oversees, if the factories implement the CAPs [corrective action plans]."

Subsidiary2: "I don't see this [following up on the audits] as our task. You can't deny that this should be part of the CSR department's responsibility."

RetailGroup3: "You know, I struggle with this logic. We are not even in direct touch with the factories. Actually, it makes me very angry."

These managers also responded by advocating for adjusting the purchasing system and implementing living wages despite the highly competitive industry in which they operated: *"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_114)

Defensive Paradox Management Practices in the Chinese National Business System

The Chinese NBS created conditions that encouraged organizations to translate the BSCI policy into rather defensive practices to handle to the living wage paradox. While the Chinese government launched strict wage legislation that required high overtime payment, these laws are not rigorously enforced:

"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 are outdated in that they have never adapted to the needs of migrant workers, who comprised half the workforce in the factories we visited (Manufacturer1). Hence, many Chinese workers did not have social security and had to pay health and pension costs from their own wages, which 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. [...] And this is not up to date anymore in China [...] but the legislation does not catch up." (ShoeImport1_I2)

This malfunctioning legislation created a context in which Chinese organizations could afford to suppress the living wage side of the paradox by not making it a precondition for business operation and interpreting the BSCI policy in a defensive way. While firms in Germany had to address initiatives like the Textile Alliance, in China not even compliance with local labor law was a necessary condition for business operation. This encouraged the Chinese suppliers to prioritize financial performance over social workplace conditions. The manufacturers and material suppliers paid no attention to relevant legislation or demands of the policy because it was clear that non-

compliance would not have consequences. Hence, they only complied with the BSCI policy ‘on paper’.

The Chinese financial system also encouraged such defensive handling of the living wage paradox. The manufacturers and material suppliers in the value chain were private firms which cannot easily access bank loans in China (Witt & Redding, 2013). Also, in the Chinese financial system, there is no established structure of insolvency proceedings, which reduced the ability of Chinese organizations to take financial risks, since going bankrupt means “*losing your face*” (Manufacturer1) and “*taking a lot of people with you*” (ShoeImport1). These two effects, in combination with assumingly thinner margins on the Chinese side of the value chain, made it hard for Chinese organizations to make long-term investments in worker training that would have enabled an environment in which living wage demands of the BSCI policy could have been substantially implemented.

“Nowadays, actually, a supplier or factory is never interested in doing this [investing in training for workers]. But they also don't know how to, and they don't know how much money they need to invest. [...] they just don't know what are the final benefits that they can get if they invest that much.” (Manufacturer1)

The Chinese labor system comes with a party-owned trade union that does not effectively advocate for workers’ rights.

“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)

The lack of formal organization in a workers’ union prevents workers from raising their voice in order to demand living wages (and thus put pressure on firms). Rather, workers focus on earning the money they need through volunteering for excessive overtime:

“Wages are always linked to the problem of overtime. Many people complain that 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)

Chinese companies are thus not much confronted with the two opposite poles of the paradox by their workers (only by their clients at the other side of the value chain), which made it easier to repress the tensions coming with the new demands of the BSCI living wage policy.

Despite research on paradox showing that Asian cultures enable paradoxical thinking (Prashantham & Eranova, 2018; Zhang et al., 2015), we can see in our data that the Chinese cultural system led to conditions favoring defensive paradox management. The Chinese cultural system comes with norms and values that lead to low trust in authorities and a certain willingness to accept corruption as a given (Whitley, 1999). Manufacturer1 quite openly talked about making payments to workers so they would not reveal their 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)

Furthermore, Chinese firms (both manufacturers and material suppliers) 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’. A representative from Shoe Import stated that *“The issue is that almost no factories have attendance records, but have them faked once a year by consultants for the BSCI audits” (ShoeImport1_I1)*. She explained this in more detail:

“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_I1)

Despite requiring material suppliers to perform the audits, manufacturers did not really confront them with both sides of the living wage paradox. Manufacturers accepted that material suppliers forged their BSCI audit results (as they did themselves) and hence dictated a defensive translation of the BSCI policy. We observed the following conversation between Material Supplier1

and Shoe Import2 when the latter conducted a routine visit to the supplier's factory that had recently been BSCI audited:

Shoe Import2: "So how many factories do you have? You said all upper material and insoles are produced at the same site, yet I don't see the machines here. Where are the big machines? They are supposed to be at this address."

Material Supplier1: "I have more factories. It is a lot of work to do the audits. We only have BSCI for this one."

Shoe Import2: "So you produce elsewhere for our client as well. This is not how it works. You need to have them audited."

It turned out that Material Supplier1 had only one of its production sites audited and that site "was the smallest and prettiest" (ShoeImport1). In order to save auditing costs, the company listed three production sites under the same address despite them being in different locations (ShoeImport1). This willingness to enter into corruption reinforced defensive paradox management, especially splitting expected living wage requirements from actually paid wages.

DISCUSSION

Diffusion of Paradox Management Practices across National Business Systems

As indicated by our first research question, we know little about how paradox management practices are diffused in inter-organizational settings (Jarzabkowski et al., 2019; Schad et al., 2016), especially in those settings where there is need to align paradox management of different actors and across distinct NBS. Our case indicates that while the BSCI diffused as a policy along the global value chain, the intended proactive paradox management practices did not. The case explains how the BSCI policy, which was adopted to cope with a paradox, was translated into paradox management practices (proactive and defensive) which then, in turn, influenced the implementation of the policy. In the German NBS, adoption of the BSCI policy gave rise to proactive practices in order to manage the living wage paradox, while the Chinese NBS created conditions in which the paradoxical demands were suppressed due to the acceptance of defensive paradox management. In other words, the BSCI policy was decoupled from day-to-day implementation efforts in the Chinese context.

This shows the relevance of the decoupling literature (e.g. Bromley & Powell, 2012) for the paradox management discourse. More specifically, the Chinese actors' defensive response to the living wage paradox enabled policy-implementation¹ decoupling – i.e. the adoption of formal policies for symbolic reasons without implementing these policies in their day-to-day activities (Meyer & Rowan, 1977). Our case suggests that under certain circumstances defensive responses to a paradox can create such decoupling and hence impede the diffusion of proactive paradox management practices. We refer to such a setting as “paradox decoupling” – a situation in which the formal adoption of a policy introduced to cope with a specific paradox is met with defensive paradox management practices that then decouple this policy from relevant implementation efforts. The question then arises as to how to explain why proactive paradox management practices adopted by German firms did not diffuse into the Chinese context? Our case shows the relevance of two factors for the discussion of whether proactive paradox management practices diffuse along global value chains.

First, diffusion was impacted by whether the relevant NBS provided “pressure points” to ensure *both* elements of the paradox were recognized. For instance, the German political system pressured firms to reconcile living wages and profits through the government-sponsored Textile Alliance, while investors equally pushed for balancing social justice and profit. This created fertile ground for proactive paradox management to evolve. The idea of NBS pressuring organizations into certain behavioral patterns is embedded in the broader literature on comparative institutionalism (Hotho & Saka-Helmhout, 2017), and more specifically in the NBS discourse (Matten & Moon, 2008). Our study adds to these debates by showing how the institutional structure of an NBS influences whether firms experience pressure to acknowledge the both/and-logic associated with paradoxical thinking.

Second, diffusion was also impacted by the level of contagiousness associated with the policy that was translated into paradox management practices. Prior research has distinguished between

simple and complex contagions (Centola & Macy, 2007; Guilbeault, Becker, & Centola, 2018). Policies that are based on simple contagion only require a few sources of pressure for substantive adoption to happen, while policies based on complex contagion require multiple independent sources of pressure for adoption to be sustained. Previous studies have shown that less institutionalized policies are usually based on complex contagion, since it is more difficult to sustain adoption behavior when uncertainty is high and the policy is not (yet) well known (e.g. Colyvas & Jonsson, 2011). The BSCI policy on living wages was not institutionalized and even actors in the German NBS regarded this debate as novel and not yet taken for granted. The living wage debate was also perceived to carry some risk, for example because of uncertainty about margins for all actors. The diffusion of proactive paradox management practices therefore required that a policy based on complex contagion was “enabled” through multiple pressure points within the NBS where adoption happened.

We argue that this interplay between (1) the availability of pressure points towards both ends of the paradox within a NBS and (2) the level of contagiousness associated with the policy adopted to respond to the paradox can add to our knowledge about how paradox management practices diffuse across institutional contexts. In our case, proactive paradox management did not diffuse beyond the German NBS because a non-institutionalized policy (i.e. the BSCI living wage) that required multiple independent pressure points for substantive adoption (because of complex contagion) was dictated to the Chinese NBS in which only one real pressure point existed (i.e. the German import agent). In other words, the availability of pressure points was not aligned with the contagiousness of the policy adopted to manage the paradox. The outcome of this misalignment was paradox decoupling and a resulting lack of diffusion of proactive paradox management practices.

Our theoretical explanation needs to be seen in the broader context of the relevant literature. While we emphasize a macro-level explanation of diffusion focused on the role of NBS, most of the extant literature discusses how organizational phenomena impact diffusion behavior (see, for

example, resource stringency, Westphal & Zajac, 1998, or resistance, Westphal & Zajac, 2001). We see both explanations as complementary, especially because different NBS characteristics can influence an organization's cost/benefit calculations regarding paradox management policies as well as the perceived salience of the underlying issues (see Durand, Hawn, & Ioannou, 2019).

The Influence of Institutional Variation on Paradox Management

Our second research question emphasized the need to attain a better understanding of how a country's NBS affects the ways in which organizations respond to paradox. We thus extend the recent literature on how the wider organizational environment affects firms' responses to paradoxical tensions (Jarzabkowski et al., 2013; Keller et al., 2017; Knight & Paroutis, 2017). While this literature has highlighted the ways in which culturally-shaped beliefs influence paradox management (Prashantham & Eranova, 2018), we place a stronger focus on the role of NBS and thereby emphasize how historically developed institutional features such as political and financial systems impact on firms' responses to paradox. Although we would not deny the relevance of a culturally-shaped paradoxical mindset in Eastern/Asian countries (Zhang et al., 2015), our results emphasize that such a mindset needs to be evaluated against the influence of other societal institutions. Our case shows that perceived corruption, lack of collective organizing among workers, and the dominance of short-term financial strategies supported an institutional environment in which Chinese firms could not reconcile living wages with profitability.

We argue that the paradox literature should therefore consider a multidimensional approach when discussing which characteristics impact paradox management across organizations and nations. We suggest embedding discussions of cross-national distance in general (Ghemawat, 2001) and institutional distance in particular (Berry, Guillén, & Zhou, 2010) into the paradox literature. Theorizing cross-national distance along multiple dimensions is important not only because different types of institutional distance can affect paradox management but also because there can be trade-offs between different dimensions. Our case has outlined a situation in which the cultural

distance between Germany and China, which would have predicted that German managers would favor either/or-thinking and thus defensive paradox handling while Chinese managers would favor both/and-thinking and thus proactive paradox management (Li, 2016), was in fact moderated by the influence of the political, financial, and labor systems.

A multidimensional research approach to institutional conditions that influence paradox management can rest on the four dimensions of NBS (i.e. countries' different political, financial, labor, and cultural systems; Whitley, 1992, 1999). Such an approach would allow for a more nuanced and fine-grained understanding of how institutional variation impacts paradox management, especially since each dimension could be further unpacked and specified. The cultural dimension of NBS, for example, extends beyond a nation's general norms and values and also includes an analysis of language (Jiang, 2000). Berry et al. (2010), for instance, highlight the need to include linguistic distance as a variable when discussing cross-national institutional variety. Linguistic distance, which is defined as how 'distant' a language is from English (measured by how difficult it is to learn a foreign language; Hutchinson, 2005), seems relevant for complementing the discussion of how cultural systems impact inter-organizational paradox management.

Linguistic distance seems relevant because the use of paradoxical frames depends, among other things, on how people as members of a group socially construct knowledge (e.g. by sharing experiences; Keller et al., 2017). High linguistic distance can impede the development of networks and the sharing of knowledge (Hutchinson, 2005), both of which are relevant for inter-organizational paradox management. Chiswick and Miller (2005) report that the linguistic distance between German and English is much lower than between Chinese and English. The resulting difficulty in sharing experiences and reaching mutual understanding (e.g. about the positive effects of a living wage) was also visible during our observations. It is therefore likely that linguistic distance can impact the contextualization of paradox management – that is, the ability of one firm to moderate the paradoxical tensions in such a way that they became bearable for another firm (Xiao et al., 2019).

CONCLUSION

Our paper has shown how organizations along a global value chain addressed the living wage paradox. All firms along the value chain officially adopted the same policy: the BSCI's living wage demands. This policy was interpreted in different ways in Germany and China, mostly influenced by the institutional context that surrounded organizations as reflected in the respective NBS. While the German retailer could dictate its proactive interpretation of the BSCI to the importer, the Chinese manufacturers and suppliers framed the practice in a defensive way. On the basis of these results we made two arguments. First, we suggested that the inter-organizational diffusion of paradox management practices across countries can be better understood when considering the interplay between (1) the availability of pressure points within a NBS that ensure that both sides of a paradox are recognized as equally important and (2) the level of contagiousness associated with the policy adopted to respond to the paradox. Second, we argued that the impact of cross-national distance on paradox management is best considered through a multidimensional approach to institutional distance which extends beyond culture-based analyses of institutional variety.

Our results point to various directions for future research. First, we would encourage future researchers to link the discussion of inter-organizational paradox management in global value chains to the concepts of power and resources. Our focus in this study has been on selected institutional conditions in the relevant NBS, which thus only allowed for an indirect discussion of the role of power and resources (see also our remarks on limitations above). More specifically, we suggest the undertaking of a comparative analysis between value chains where the power asymmetry between buyers and suppliers ranges from high to low. For instance, Gereffi et al. (2005) distinguish between captive global value chains (in which buyer firms can exercise power) and relational chains (in which the power balance is more symmetrical). Such analyses would also allow for improved

theorization of the organizational-level conditions that impact paradox management, while our focus in this study has been on the institutional level.

Second, we would encourage future research to construct a cluster of institutional dimensions that are relevant for an inter-organizational analysis of paradox management across countries. Our own approach in this paper rested on the NBS research tradition (Whitley, 1992, 1999), but future scholarly work can extend this by focusing on other conceptualizations of cross-national institutional variety. More specifically, two streams of work can extend our approach. On the one hand, the literature on national governance systems (Henisz & Williamson, 1999) complements many aspects of the NBS approach because it puts more emphasis on administrative institutions (e.g. related to differences in the nature of legal systems) and therefore highlights the role of stakeholder groups that are not very well captured in the NBS literature (e.g. lawyers). On the other hand, the literature on national innovation systems (Nelson & Rosenberg, 1993) supplements the NBS approach because it puts more emphasis on the role of knowledge production and also stresses the influence of a country's connectedness (e.g. internet usage) on institutional variety. The latter aspect seems particularly important for analyzing paradox management along global value chains, since such chains increasingly rely on digital technologies for integration, knowledge sharing and coordination (Farahbod & Varzandeh, 2018).

ENDNOTES

¹ We deliberately label this type of decoupling “policy-implementation” and do not use the more widely adopted term “policy-practice” (Bromley & Powell, 2012) decoupling. This is because we do not want to confuse the *implementation practices* related to the formal policy with *paradox management practices* that the policy is translated into. In our case the BSCI policy was translated into paradox management practices which then, in turn, shaped implementation practices.

TABLES AND FIGURES

	German NBS	Chinese NBS
Political system	<ul style="list-style-type: none"> – Social market economy with moderate state power (Matten & Moon, 2008) – State interferes through regulation of, e.g., national insurance systems for health, unemployment, maternity, and pension (Matten & Moon, 2008) 	<ul style="list-style-type: none"> – Authoritarian capitalism with powerful Communist Party of China (CPC) (Witt & Redding, 2013) – Large number of companies are party-owned (Hofman, Moon, & Wu, 2017) – State itself “acts as a capitalist” (Lin, 2010: 64)
Financial system	<ul style="list-style-type: none"> – Steered by a number of large investors who, in addition to the stock market, finance the majority of German corporations (Matten & Moon, 2008) 	<ul style="list-style-type: none"> – For firms that are party-owned, state-owned banks offer financial resources (Witt & Redding, 2014) – 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 & Redding, 2014)
Skill development and labor system	<ul style="list-style-type: none"> – Strong public education, whereby both industry and the state are responsible for producing human resources and developing their skills (Lane, 1997) – Strong national trade unions that conduct centralized collective bargaining for wages and working conditions with national employers’ associations; strong civil society players that pressure companies for better working conditions (Lane, 1997) 	<ul style="list-style-type: none"> – Relatively weak education system, despite it advances in recent years (Witt & Redding, 2014), that does not encourage critical thinking, but focuses on hard work (Hofman et al., 2017) – Shortage of usable skill and high employee turnover (Witt & Redding, 2014) – Party-owned trade union (All-Chinese Federation of Trade Unions), which does not represent worker rights, but interests of CPC (Hofman et al., 2017)
Cultural system	<ul style="list-style-type: none"> – High trust in public institutions and authorities (Lane, 1997) – Norms and values related to strong work and business ethics (Lane, 1997) 	<ul style="list-style-type: none"> – Low trust in authorities, a legacy especially of the Cultural Revolution, leads to low compliance with legal regulation and widespread institutionalized corruption (Whitley, 1999: 52) – Yin-yang thinking, which enables a paradoxical mindset, is rooted in the culture (Zhang et al., 2015)

Table 1: The German and Chinese NBS

Organization	Location	Interview partners*	Formal 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
Value chain data:		48	24	51	38	180	47

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
Stakeholder data:		23	23	1	23,5	8	38

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

**Formal 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
		11	11	6	14	29	71

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

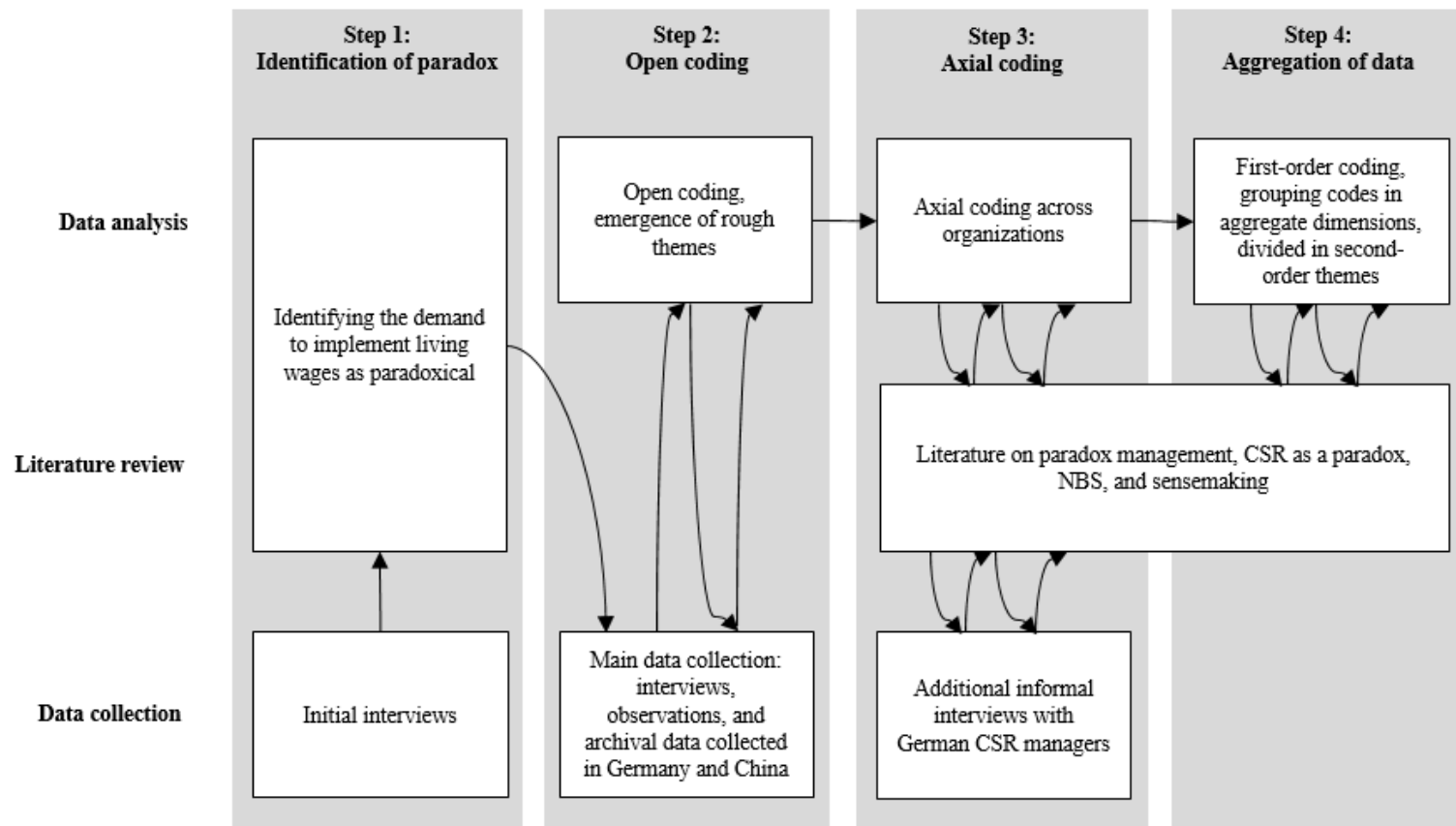


Figure 1: Data analysis process

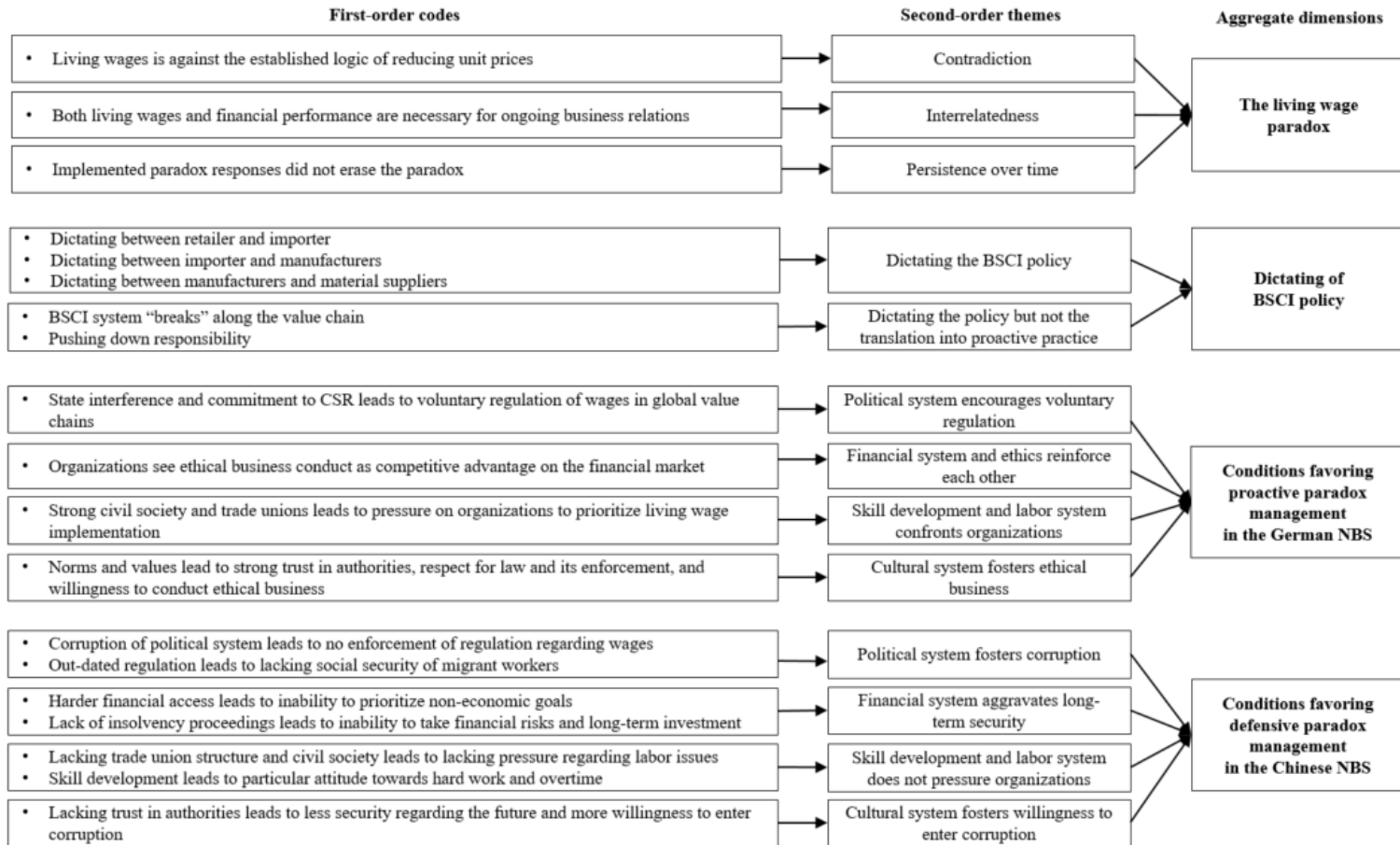


Figure 2: Data structure

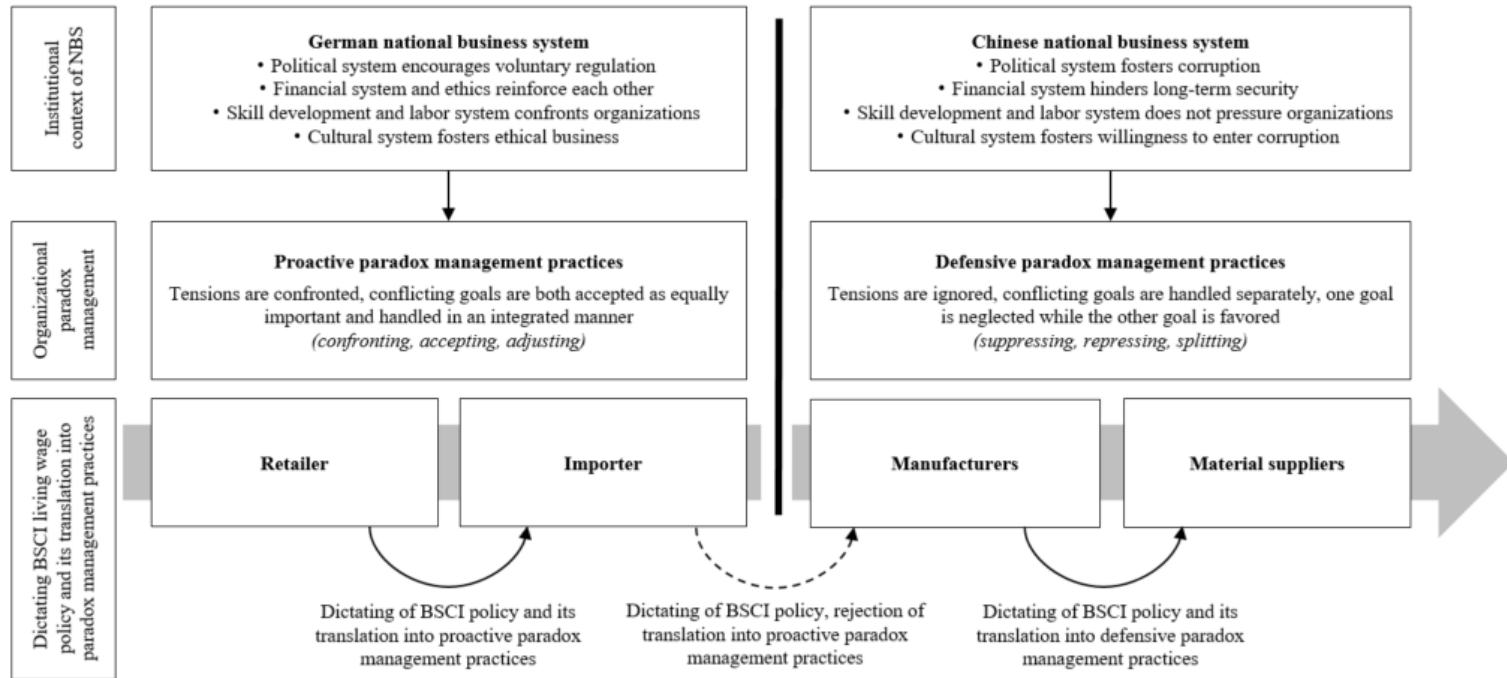


Figure 3: Summary of findings

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