Discovering and Managing Interdependence with Customer-Entrepreneurs

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ABSTRACT

Research on inter-organizational relationships has largely focused on the interdependence between formal organizations. In recent years firms have encountered a new logic in which interdependent parties are not formal organizations but platform-based 'customer–entrepreneurs' that create value through illegal means. Drawing on a five-year-long qualitative study, we examine how firms recognize and instantiate this new logic and, consequently, respond to their interdependencies with customer–entrepreneurs. Viewed through the lens of institutional logic, we find that, with the benefit of hindsight, firms recognize the existence of the logic of customer entrepreneurship, which triggers organizational sensemaking that is made up of three elements: interpretation of legitimacy compatibility; interpretation of efficiency compatibility; and integration of stakeholder perspectives. This sensemaking results in either a determined account concluding on the compatibility calculus in a top-down manner, or an open-ended account avoiding the construction of a resolute, synthesized view. A determined account leads to a defiance strategy, by which firms attempt to remove the source of interdependencies with customer–entrepreneurs, whereas an open-ended account guides firms to espouse a decoupling strategy, whereby firms covertly resort to efficiency maximization enabled by the interdependence. Our results offer implications for the research on inter-organizational relationships and institutional logic.

Keywords: inter-organizational relationship; customer entrepreneurship; digital entrepreneurship; digital platform; institutional logic.

INTRODUCTION

Inter-organizational relationships are a well-established means by which firms discover and manage interdependencies with formal organizations (Gulati and Gargiulo, 1999; Pfeffer and Nowak, 1976; Shipilov and Gawer, 2020). In recent years firms have encountered a new form of organizational interdependence with their customers. In this emerging logic, customers no longer play their traditional roles as passive buyers – rather, they proactively create and capture value by capitalizing on the resources of firms and digital platforms. For example, numerous children are now buying toys to create unboxing and pretend-play videos on YouTube. Furthermore, large numbers of students are purchasing luxury goods to re-sell on Instagram and WeChat. We refer to this phenomenon as *customer entrepreneurship* and define it as the entrepreneurial activities of actors conventionally categorized as end-consumers or end-users in ecosystems (cf. von Hippel, 2005; Jacobides, Cennamo, and Gawer, 2018).

In the logic of customer entrepreneurship, interdependence transpires as business-like customers buy the products and services of firms and then advertise, review and/or re-sell them to the firms' existing and untapped markets. This emerging logic addresses the efficiency imperatives of firms because it offers a low-cost route to local and global market expansion. Yet, it also challenges the legitimacy considerations of firms, as many customer–entrepreneurs espouse illegal means to engender outcomes that seem desirable and legitimate in the eyes of a critical mass of end-consumers. Indeed, a plethora of YouTube content creators and WeChat re-sellers are alleged to breach the laws in relation to business registration, tax, copyright and child privacy (see, for example, Jones, 2019; The Economist, 2017). Then, what comes into question is how firms cope with this new form of interdependence. Given that interdependence is a necessary condition for firms to enter inter-organizational relationships (Gulati and Gargiulo, 1999), firms, in theory, are motivated to manage their interdependencies with customer–entrepreneurs through inter-organizational relationships. Or do they?

The literature on inter-organizational relationships (IORs) has examined diverse modes through which firms discover and manage interdependencies in their networks (Gulati and Gargiulo, 1999; Pfeffer, 1972; Shipilov and Gawer, 2020). This literature has mainly assumed that constituents in these networks are accessible through network embeddedness and composed of legal entities qualified to enter into contractual arrangements, such as franchising contracts (Contractor and Kundu, 1998), acquisitions (Buckley and Munjal, 2017) and outsourcing partnerships (Lahiri, 2016). Firms embedded in this context discover interdependence as a consequence of intentional searching (Gulati and Gargiulo, 1999; Oliver, 1990) and formalize it through a set of safeguarding devices, such as inter-organizational sensemaking and formal/informal contracting (Caniëls and Gelderman, 2010; Vlaar, Van den Bosch, and Volberda, 2006; Howard et al., 2019). The IOR researchers have also shown that firms iterate interdependence management cycles until the parties are 'connected in ways that facilitate achievement of a common goal' (Fortwengel and Sydow, 2018; Provan, Fish, and Sydow, 2007, p. 482), or the parties conclude that their ongoing interdependencies no longer provide incentives for retaining cooperative ties (Ring and Van de Ven, 1994; 2007).

Largely neglected in the extant literature, however, is interdependence management, with actors falling outside the conventional category of formal organizations. As such, we know little about how the emerging logic of customer entrepreneurship is instantiated within the firms, and why it takes place in such a manner. Nor can we explain how firms discover and respond to the interdependencies with customer–entrepreneurs and the reasons behind those responses. An in-depth understanding of these issues is warranted because customer entrepreneurship on digital platforms is becoming more prevalent, with its implications for both organizational success and demise.

This study fills this gap by conducting a longitudinal, qualitative study on the downstream interactions between two cosmetics firms and one type of customer–entrepreneur, known as *daigou* agents (see Nielsen, 2017). Composed of Chinese expatriates around the world, daigou agents enact customer entrepreneurship by: (a) purchasing goods from local stores in advance and re-selling them to online consumers via social media platforms; and/or (b) offering online personal-shopping services, such as shopping on behalf of clients or giving shopping tips. These value propositions, though desirable for myriad online consumers, are realized through illegal or informal means: many daigou agents fail to register their businesses, pay taxes and comply with copyright laws. This study uses abductive reasoning, which guides us to consult the literature on institutional logic as an analytical lens to examine the collected data.

A study on the interdependence between firms and emerging customer–entrepreneurs is unique in IOR studies and the research on institutional logic, allowing us to contribute to the extant literature in two significant ways. First, we add to the existing understanding of how firms 'discover and manage interdependencies' (Gulati and Gargiulo, 1999; Pfeffer, 1972; Shipilov and Gawer, 2020, p. 94). Our findings reveal that firms tend to recognize, in hindsight, the existence of customer entrepreneurship logic, thereby engaging in organizational sensemaking to generate an actionable guideline in response to the retrospectively discovered, new form of interdependence with customer–entrepreneurs. This sensemaking process has three key elements: (a) interpretation of legitimacy compatibility; (b) interpretation of efficiency compatibility; and (c) integration of stakeholder perspectives. Based on this process, firms generate either a determined account, guiding firms to defy the interdependence with customer–entrepreneurs, or an open-ended account, encouraging firms to strategically resort to decoupling, in which they intermittently capitalize on the resources of customer–entrepreneurs behind the scenes. Second, the determined and open-ended accounts explain how sensemaking triggers the variance in organizational responses to institutional logic, thereby contributing to the existing discourse on the role of sensemaking in the instantiation of institutional pressure (e.g., Bertels and Lawrence, 2016; Thornton, Ocasio, and Lounsbury, 2012; Wooten and Hoffman, 2008).

In the following sections we begin by reviewing the extant research on IORs and institutional logic. This is followed by the presentation of our research method and the findings resulting from it. We close by discussing our results and their implications for theory and practice.

THEORETICAL BACKGROUND

Customer Entrepreneurship and A New Form of Interdependence

In the recent digital economy customers have been shifting away from their traditional roles as passive buyers to become proactive entrepreneurs. This new breed of customer is no longer the referent of value propositions; nor do they share their value-creating ideas altruistically with firms. Rather, they create and capture value through their own digital entrepreneurship: the exploitation of commercial opportunities using digital technologies and platforms (Nambisan, 2017; Sussan and Acs, 2017). Examples of these customer–entrepreneurs include children creating toy-unboxing videos on YouTube, homeowners hosting travelers via Airbnb, and students re-selling consumer goods on WeChat. A key defining feature of many customer–entrepreneurs is informality in their value-creating activities. By informality, we mean that customer–entrepreneurs capitalize on varying degrees of illegal means to engender outcomes that seem desirable and legitimate in the eyes of a critical mass of end-consumers. This echoes the nature of informal economy actors that undertake 'the set of illegal yet legitimate (to some large groups) activities (Darbi, Hall, and Knott, 2018; Siqueira, Webb, and Bruton, 2016; 2009, p. 492). Indeed, 72% of rentals made in New York via Airbnb violated the local property law (Schneiderman, 2014); YouTube content creators frequently infringed copyright and child privacy laws (Chee, 2019); and a plethora of students on WeChat re-sold consumer goods without conforming to business registration laws and customs duties (Hawkins and Thorpe, 2019). This platform-based informal economy, despite its illegal nature, is flourishing and expanding because customer–entrepreneurs provide value to myriad end-consumers in a manner that is not available in the formal economy.

As customer–entrepreneurs have become more prevalent, a variety of firms have increasingly discovered their interdependencies, with this new actor falling outside the conventional category of formal organizations. Defined as the extent to which 'two or more organizations must take each other into account if they are to accomplish their [respective] goals' (Litwak and Hylton, 1962, p. 401; Steensma and Corley, 2000), the interdependence between firms and customer–entrepreneurs transpires as follows: (a) business-like customers use the resources of firms to realize commercial opportunities; and (b) firms, in turn, earn considerable windfall profits and achieve unforeseen market expansion. For example, luxury brands, cosmetics firms and infant formula producers are experiencing a remarkable leap in revenue arising from the untapped markets, after customer–entrepreneurs advertise and re-sell the firms' products via social media platforms (see, for example, Bain and Company, 2016; Bloomberg News, 2019; The Economist, 2017). Our research focuses on this emerging form of interdependence.

Managing Interdependence through Inter-Organizational Relationships

IORs are materialized entities of the 'ways in which [their] respective organizational members discover and manage interdependencies among each other' (Gulati and Gargiulo, 1999; Shipilov and Gawer, 2020, p. 94). The IOR literature has progressed in two major research streams in relation to interdependency management (Hibbert, Huxham, and Ring, 2008; Majchrzak, Jarvenpaa, and Bagherzadeh, 2015; 2008). The first line of inquiry examines the trajectories through which interdependencies among organizations are formalized, developed and terminated. Such process studies have largely unraveled two developmental paths: life-cycle and teleological trajectories (see Table 1).

[Insert Table 1 here]

As outlined in Table 1, IORs often unfold in ‘a predictable, linear sequence of life-cycle stages…as a function of rational planning and execution by those in charge’ (de Rond and Bouchikhi, 2004, p. 57). For example, in an early treatise on buyer–seller relationships, Dwyer et al. (1987) propose a four-phase model, including the stages of awareness, exploration, expansion, commitment and dissolution. On the other hand, IOR interdependencies commence and advance through ‘a repetitive sequence of goal formulation, implementation, evaluation, and modification of goals based on what was…intended’ (Van de Ven and Poole, 1995, p. 516). Indeed, Ariño and de La Torre (1998) demonstrate that parties engaged in joint ventures recursively adjust the degree of commitment and tightness of coupling, depending on the assessment regarding the return of interdependent activities.

The second research stream zooms in on the trajectories of IORs and selectively explores in-depth ‘a particular part of the developmental cycle’ (Hibbert, Huxham, and Ring, 2008, p. 397). Firms engage in partner selection as a first step in interdependence management to reduce the uncertainty derived from a lack of information about, for example, the attitudes, needs, reputation and true capabilities of potential partners (Glaister and Buckley, 1997; Gulati and Gargiulo, 1999; Inkpen and Li, 1999). Next, firms become involved in inter-organizational sensemaking, in which the parties appraise the purpose, expectation and uncertainty associated with the IORs and, subsequently, reconcile the contradictory views among themselves (Ring and Van de Ven, 2000; Vlaar, Van den Bosch, and Volberda, 2006). As the parties reach an agreement through recursive negotiation processes, they enter into formalization, defined as ‘the process of codifying and enforcing output and/or behavior, and its outcomes in the form of contracts, rules and procedures’ (Vlaar, Van den Bosch, and Volberda, 2007, p. 439; Howard et al., 2019). Such contractual and relational arrangements are always incomplete (Williamson, 1996), so that formalization is an ongoing accomplishment susceptible to continuous change (e.g., Lumineau, 2017; Lumineau and Malhotra, 2011; Ness, 2009). Finally, organizations repeatedly undertake evaluation procedures to monitor and assess the outcomes of their interdependencies with partners (Provan and Sydow, 2008; Sydow, Schüßler, and Müller-Seitz, 2016). Specifically, organizations evaluate the benefits of interdependent ties through a set of indicators (e.g., Ozorhon and Arditi, 2012; Yan and Gray, 1994; Yan and Gray, 2001), including the achievement of initial strategic goals, the overall satisfaction with the interdependent activities, financial measures and continuance indicators.

Emergence of New Institutional Logic

Customer–entrepreneurs do not fit neatly into the conventional category of formal organizations. For this reason, the interdependencies between organizations and customer–entrepreneurs are likely to play out in an unprecedented manner, possibly going beyond the managerial remit of IORs documented in the existing literature (see Table 1). This implies that the intake of customer–entrepreneurs in a given industry is translated into the emergence of new *institutional logic*: a set of principles prescribing ‘how to interpret organizational reality, what constitutes appropriate behavior, and how to succeed’ (Thornton, 2004, p. 70). For example, firms in the face of customer–entrepreneurs may encounter a new set of principles that suggest an alternative route to market expansion and sales growth.

At the intra-organizational level, newly emerging logic often provides prescriptions that are incompatible with what has been ‘considered legitimate organizational aims, actions, and outcomes’ (Bertels and Lawrence, 2016, p. 4; Pache and Santos, 2010; 2011). In addition, institutional pressures stemming from this new logic may reinforce, or go against, the efficiency imperatives of firms (Roberts and Greenwood, 1997; Seo and Creed, 2002). Such compatibility issues are generally seen as a critical issue to resolve, which may otherwise cause internal rifts or even organizational demise (Battilana and Dorado, 2010; Tracey, Phillips, and Jarvis, 2011). Therefore, in the face of emerging institutional logic, firms exercise agency to create appropriate organizational responses (Besharov and Smith, 2014; McPherson and Sauder, 2013; Seo and Creed, 2002). The processes underlying these organizational responses, however, are not without tension. Because organizations are 'composed of various groups promoting different values, goals, and interests' (Pache and Santos, 2010, p. 459), organizational members: (a) produce heterogeneous interpretations of newly emerging logic; and subsequently (b) generate conflicting accounts of how emergent logic should be instantiated in the organizations (Besharov and Smith, 2014, p. 366; Delmas and Toffel, 2008).

Understood as such, organizational responses to newly emerging logic are largely contingent on sensemaking processes (Bertels and Lawrence, 2016; Thornton, Ocasio, and Lounsbury, 2012; Wooten and Hoffman, 2008). Defined as a process through which organizational members interpret surprising or confusing events and produce a foundation for collective actions (Garreau, Mouricou, and Grimand, 2015; Maitlis and Christianson, 2014), organizational sensemaking unfolds in diverse forms. For example, sensemaking processes might take a form whereby leaders actively provide overarching accounts of issues at hand and attempt to produce a unitary guideline for action; or sensemaking might be characterized by no organizational member trying to integrate multiple stakeholder perspectives into a determined actionable guideline (Maitlis, 2005).

Institutional researchers have observed that organizational sensemaking triggers variations in organizational responses vis-à-vis institutional logic (Bertels and Lawrence, 2016). First, organizations may engage in a certain form of *decoupling*, whereby organizational members disconnect: (a) what they claim to do and what they really do; and then (b) only foreground the part that is essential to gain/maintain legitimacy (Boxenbaum and Jonsson, 2008). For example, in their study of prestige wineries, Beverland and Luxton (2005) identify that brand managers deliberately decouple outward images from day-to-day work operations undertaken behind the scenes and highlight the projected images. Likewise, 'excellence in quasi-professional athletic endeavors is not mentioned in the mission statement' of athletic departments in most universities, but it is in fact the most important principle in the everyday life of the departments (Kraatz and Block, 2008, p. 250). Second, *defiance* is another viable response strategy, which ignores/dismisses/suppresses one of the institutional prescriptions to eliminate the source of institutional complexity (Oliver, 1991; Pache and Santos, 2010). Finally, organizations may use *compromise* approaches, by which members of organizations comply with select elements of all institutional demands (Pache and Santos, 2010, p. 463; Pache and Santos, 2013).

Unpacking Organizational Responses to Interdependencies with Customer–Entrepreneurs

We argue that customer entrepreneurship brings firms into contact with a new form of interdependence, ensuing from a higher-order new institutional logic. In this new logic, interdependent parties are not formal organizations but business-like customers that create value for end-consumers through varying degrees of informal or even illegal means. The IOR research has long explored a means to 'discover and manage interdependencies' (Gulati and Gargiulo, 1999; Pfeffer and Nowak, 1976; Shipilov and Gawer, 2020), with a central focus on the context in which organizations coordinate interdependencies with formal organizations – those involved in, for example, strategic alliances (Das, 2006), joint ventures (Glaister, Husan, and Buckley, 2003), coopetition relationships (Ritala, 2012) and third-party alliances (Velu, 2015). As such, we know little about how firms discover and manage the new form of interdependence prescribed by the emerging logic of customer entrepreneurship. Looking across the research on institutional logic, we find that the propositions of this body of literature can help to fill the aforementioned gaps in IOR literature. Against this backdrop, we address the following research question: *How do firms recognize and instantiate the emerging logic of customer entrepreneurship, thereby discovering and managing the new form of interdependence?*

METHOD

Considering the emerging nature of the phenomenon under examination, we conducted qualitative research. Specifically, this study used a multiple case design (Gehman et al., 2018), in which we traced the interactions between two cosmetics firms and one type of digital customer–entrepreneur, known as *daigou* agents, over a five-year period.

Research Setting

We focused on the transactions between daigou agents and two large firms, occurring in the Korean cosmetics industry. This empirical setting presented three advantages. First, daigou agents represent one of the most prevalent types of customer–entrepreneur. For example, Nielsen (2017) estimated that 200,000 daigou agents operate in Australia alone, and the BBC (2018) suggested over a million globally. Second, the demand for Korean cosmetics was growing rapidly in China, resulting in a dramatic surge in the number of Chinese people becoming daigou agents to re-sell Korean cosmetics. This allowed us to observe the embryonic phase of the phenomenon under study. Finally, the geographical proximity of China and Korea enabled many Chinese to easily buy and re-sell Korean cosmetics. As such, the types of daigou agent were most diverse in the Korean cosmetics industry, shaping the extreme situation (Patton, 2002).

Data Collection

Considering that our unit of analysis was an ‘interdependence’, we sampled both cosmetics firms and daigou agents. First, following a purposeful sampling logic (Charmaz, 2006), we selected a large-sized cosmetics firm, BeautyMore (pseudonym), whose cosmetics were among the most desirable items for daigou agents. Second, as theoretical ideas roughly emerged, the need to include a comparison group became apparent (Locke, 2001). Therefore, we sampled SkinGood (pseudonym), another large firm in the market. Third, 11 daigou agents were incrementally sampled. These daigou agents were all owner–managers, and their businesses were all younger than seven years old. Although they typically operated on a micro-scale, some of them made considerable revenue – the smallest daigou agent earned $280 per month, and the largest one generated $800,000 per month. Finally, we probed other industry constituents to confirm and refine our findings. These informant groups included the staff members of duty-free stores (i.e., the major sales channels of BeautyMore and SkinGood), sales managers of franchise stores, and reporters working for the news agencies specializing in the cosmetics industry. Table 2 outlines our informants and data sources.

Preliminary conversations with the cosmetics firm managers revealed that none of the studied firms operated a dedicated business unit dealing with daigou agents. Therefore, we recruited informants on a referral and trial-and-error basis, rather than using global measures such as business area, length of incumbency and hierarchical position (Kumar, Stern, and Anderson, 1993). This recruiting process resulted in a variety of firm informants, ranging from strategists to sales staff. To probe daigou practices, we recruited daigou agents that had repeatedly purchased the cosmetics of BeautyMore and SkinGood. Daigou agents included the owner–managers responsible for their own enterprise. Between December 2015 and September 2019, we conducted a total of 73 semi-structured interviews (see Table 2). These formal interviews contained follow-up sessions carried out when emergent theoretical ideas produced a new line of inquiry or when striking events occurred. Each interview lasted between 45 minutes and 3 hours. All of the interviews were digitally recorded and transcribed verbatim.

We engaged in the field observation to triangulate the interview data (Jick, 1979) and uncover potential backroom negotiations. First, given that daigou agents operate on WeChat, we observed the WeChat posts (e.g., texts and photos) generated by our daigou informants. Second, the first author spent a total of ten days shadowing two daigou agents, making sure that this did not hinder their operations. Specifically, the first author observed their daily operations, from buying or selling goods to packaging and shipping back to their customers. Table 2 summarizes the collected data and how it was used in the subsequent data analysis.

[Insert Table 2 here]

Data Analysis

We analyzed our data using an abductive reasoning process (Mantere and Ketokivi, 2013) and common analytical prescriptions for qualitative data (Corbin and Strauss, 2015; Kouamé and Langley, 2018). The first step of data analysis involved the process of data reduction, where we coded the raw data into numerous low-level concepts representing the activities of cosmetics firms, daigou agents and other constituents in the industry (Corbin and Strauss, 2015). Such basic-level concepts were those replicated across multiple informants and confirmed by several data sources. Some coded activities and responses that were idiosyncratic to a few informants were excluded. In the second step we attempted to cluster numerous concepts into categories and give them a sequential order by consulting multiple theoretical referents. Specifically, bodies of literature on IORs guided us to see how firms discover and manage the interdependence among formal organizations. These lines of research served as the first analytical lens, suggesting that interdependencies might be discovered and managed through partner selection and formalization (Vlaar, Van den Bosch, and Volberda, 2006; Vlaar, Van den Bosch, and Volberda, 2007; 2000; 2010). This prediction, however, demonstrated limited explanatory power for completely understanding the interdependence between our case firms and daigou agents. Therefore, we explored other possibly relevant theories on the basis of a 'hunch' (Locke, Golden-Biddle, and Feldman, 2008). This abductive exercise finally oriented us to use the research on institutional logic to categorize and sequence the lower-order concepts. We moved our concepts toward the higher level of abstraction through the theoretical insights of the organizational field and the status of firms (Scott, 2014; Wry, Lounsbury, and Greenwood, 2011), sensemaking (Maitlis, 2005; Thornton, Ocasio, and Lounsbury, 2012) and human agency and organizational responses to institutional logic (Bertels and Lawrence, 2016; Boxenbaum and Jonsson, 2008; Seo and Creed, 2002). Put simply, as outlined in Figure 1, our coding process iteratively generated: (a) first-order concepts that capture informant voices; (b) second-order categories that sift through the lower-order concepts to identify generalized patterns using the identified theoretical concepts; and (c) aggregate dimensions that were formed in alignment with empirical findings, which adds to the extant theoretical understanding.

To ensure construct and internal validity, we collected information from multiple data sources, including interviews and observations (Gibbert and Ruigrok, 2010). We made a summary report of our findings and sent or showed it to several key informants. This member-checking was carried out to test the fitness of our data interpretation with the viewpoints of 'groups from which data are solicited' (Guba, 1981, p. 85). Furthermore, a longitudinal, multi-case design was used to increase external validity (Meyer, 2001).

[Insert Figure 1 here]

FINDINGS

Since the early 2010s the Korean cosmetics industry has witnessed the appearance of what have come to be known as *daigou* agents. Composed of Chinese expatriates around the world, daigou agents buy consumer goods from local stores and subsequently sell them to consumers on mainland China via social media platforms (see Figure 2). Although daigou agents have provided online consumers with opportunities to buy desirable items more cheaply than via the official sales channels, and to purchase goods that were unavailable in the local markets, they have engaged in varying degrees of illegal means to create such value for customers. For example, it became evident that many daigou agents did not register their businesses, evaded taxes and customs duties and failed to comply with copyright laws.

Daigou agents have created significant economic effects for the cosmetics industry in South Korea. Indeed, *Reuters* reported that the Korean cosmetics industry became the second largest beauty aid exporter to China following the emergence of daigou agents (Lee, 2016). Sales channels, such as duty-free stores, franchise stores and wholesalers, and delivery companies in the industry, all experienced remarkable increases in revenue after daigou agents began to purchase cosmetics for re-sale (see, for example, Chung, 2019; Woetzel et al., 2019). To capitalize on this lucrative phenomenon, the retailers and couriers introduced several incentive programs to facilitate the operations of daigou agents. For example, duty-free operators launched a reward program that offers commissions proportional to the amount of purchases made by daigou agents. As illustrated in Figure 2-d, duty-free operators also installed what they call a re-packing area at airports in Korea; daigou agents collecting duty-free items at the airports use this dedicated area to conveniently unwrap and re-package the collected goods to fit in their suitcases. Likewise, small-sized delivery companies introduced a new service tailored to the shipping style of daigou agents (see Figure 2-d). Franchise cosmetics stores offered free cosmetics samples to partly compensate the bulk purchasing of daigou agents and tried to form personal ties. A sales manager working for one franchise store remarked:

> We gave 100 free beauty samples to a large-sized daigou agent… This daigou agent always bought a very large amount of cosmetics, which is why we took great care of her. We even invited her to our staff party… She was a student studying in Korea but the size of her daigou business was comparable to a proper company.

Largely sought-after items for daigou agents were the beauty aids of two global cosmetics brands: BeautyMore and SkinGood. Financially, the firms recorded around 20% Year-Over-Year revenue growth between 2014 and 2016. The members of BeautyMore and SkinGood commonly explained that the hidden driver behind this remarkable business growth was their interdependencies with daigou agents. The sales team leader of SkinGood, reflecting on their recent success, recalled that 'if there were no daigou agents in 2014 onwards, we could not see success like now' (Interview, 2017). However, these interdependencies with daigou agents were surprising in the eyes of our case firms because they were not even aware of the existence of daigou agents. As the senior marketing strategist of SkinGood explained, the firms initially identified daigou agents as common tourists from China:

> Initially it was difficult for us to notice the existence of daigou agents. We thought that they were just common Chinese customers, traveling to Korea and buying cosmetics in bulk for their family and friends.

Determining the true identities of daigou agents and the true reason behind their recent success, the case firms discovered a new form of interdependence and attempted to make sense of it. Our analysis revealed that the ways in which the two case firms reached an understanding about this interdependence were substantially different (see Table 3).

[Insert Table 3 here]

At BeautyMore organizational members interpreted whether the new form of interdependence was consistent with the existing form of interdependence they had seen as legitimate and whether it reinforced the functional efficiency of their operational practice. The top management team, in particular, had a strong view on the interdependence with daigou agents. They interpreted this interdependence as a source of 'illegitimate sales channel' that engenders short-term efficiency in their sales practice, with greater losses in the long run. Accordingly, the leaders promulgated their views across the organization so that this top-down, determined account of the new form of interdependence was unitarily shared by organizational members. While some staff members had different opinions about daigou agents, the leaders made no room for other staff members' accounts of the situation. For example, the sales channel strategist of this firm put it this way:

> Our policy targeting daigou agents is in line with the CEO's view and the value he pursues… The CEO, of course, cares about our business growth, but he worries more about the legitimacy issues of the daigou sales channel… We could have contacted all daigou agents and let them buy and re-sell all our cosmetics. If we had done so, we could have seen considerable revenue growth (sales channel strategist, 2018).

As with BeautyMore, the organizational members of SkinGood assessed the legitimacy and efficiency issues associated with daigou agents. The senior management of SkinGood regarded daigou agents as an illegitimate route to end-consumers; yet, in contrast to BeautyMore, the top management team did not promote their views on the implications of their interdependence with daigou agents (see Table 3). Nor did staff members try to sell their views to the senior management. In this way, the understanding of daigou agents was open-ended in this firm, resulting in the sales, marketing and strategy units having disparate perspectives. Indeed, the director of the sales unit thought that 'using daigou agents as a sales channel can be an efficient way to increase market share', whereas the strategy team leader viewed it as 'a low-cost route for new cosmetics start-ups with extremely low brand awareness and revenue…[but] not a legitimate strategy for established cosmetics brand like SkinGood'.

Because our case firms animated a different form of sensemaking, this was also true of their subsequent responses to the interdependencies with daigou agents. BeautyMore consistently tried to suppress its relationships with daigou agents by minimizing the root source of the interdependence. For example, as shown in Figure 3-a, BeautyMore launched a series of purchasing restriction policies limiting the number of cosmetics that one customer could buy at a time, which had an antagonistic effect on those buying cosmetics in bulk for re-sale. The firm also asked its partner retail outlets to pursue this restriction policy. The following quote of a duty-free store manager supervising the duty-free sales of BeautyMore and SkinGood cosmetics is illustrative:

> BeautyMore try not to allow daigou agents to buy their cosmetics in bulk… Other brands often turn a blind eye to the bulk purchase of daigou agents, but BeautyMore implements a very tight purchasing restriction policy.

SkinGood also established a set of purchasing restriction policies because the firm also regarded daigou agents as creating an illegitimate sales channel. However, SkinGood implemented the crackdown policy in a more flexible manner. For example, in the face of temporary revenue declines, the sales unit often contacted multiple large daigou agents capable of buying SkinGood cosmetics in bulk and carried out backdoor transactions with them (see Figure 3-b). However, these behind-the-scenes transactions were not reported to the public. Indeed, SkinGood's annual report explains its revenue growth, using an equivocal word – customers from the Greater China Region – instead of explicitly mentioning daigou agents.

During the five-year-long fieldwork, the sales of BeautyMore steadily declined after the initial surge, whereas SkinGood saw a constant upward trend. Our daigou interviewees, who initially described their difficulties purchasing BeautyMore cosmetics in bulk, remarked in the later-round interviews that BeautyMore cosmetics were no longer sought-after, whereas SkinGood cosmetics were still in demand.

[Insert Figure 2-1 here]

[Insert Figure 2-2 here]

[Insert Figure 3 here]

DISCUSSION AND CONCLUSION

This study responds to the call for papers that emphasizes the need to revisit inter-organizational relationships in light of a changing business landscape (Kundu, Munjal, and Lahiri, 2019). Indeed, our work focuses on a new form of inter-organizational relationship between firms and customers, which step out of their traditional roles as passive consumers to become commercial customer–entrepreneurs. This newly emerging relationship, facilitated by digital technologies, challenges the existing notion of how firms discover and manage interdependencies with their customers. Our study has explored the mechanism through which firms instantiate the emerging logic of customer entrepreneurship and consequently shape the strategic basis for managing interdependencies with customer–entrepreneurs. By doing so, our findings speak to the call for research on how firms, in the new business landscape, make sense of and manage inter-organizational cooperation processes (Kundu, Munjal, and Lahiri, 2019). The remainder of this section discusses the theoretical and practical implications stemming from our findings; and it closes by suggesting the limitations of our work and a potential future research agenda.

Mechanism of Organizational Responses to Interdependencies with Customer–Entrepreneurs

Our findings reveal that the interdependencies between firms and customer–entrepreneurs unfold in three major steps. First, firms initially fail to recognize the existence of customer entrepreneurship logic, until it becomes prevalent in their respective 'industry exchange fields' (2017, p. 398). This institutional logic, once identified, comes as a surprise because it renders a new organizational reality in which potential exchange partners are business-like customers espousing varying degrees of informal or even illegal means; and it suggests alternative principles guiding firms to interact with those informal actors, rather than formal organizations, to achieve sales growth and market expansion. Consequently, firms attempt to understand 'what is going on' (Maitlis and Christianson, 2014, p. 58) and endeavor to decide 'how logics are instantiated in organizations' (Besharov and Smith, 2014, p. 366).

Second, this organizational sensemaking has three key elements: (a) *interpretation of legitimacy compatibility*, generating the account of whether the new form of interdependence prescribed by the customer entrepreneurship logic is compatible with the form of interdependence that firms have hitherto seen as legitimate; (b) *interpretation of efficiency compatibility*, producing an understanding of the extent to which the new form of interdependence reinforces the efficiency imperative of firms; and (c) *integration of stakeholder perspectives*, attempting to coalesce the multiple interpretations of organizational members into an actionable guideline.

Finally, resulting from this sensemaking process is either a determined or open-ended account. In a *determined account*, leaders generate a single, resolute view that concludes the compatibility calculus and decides the organizational prioritization over an emerging institutional pressure or the hitherto institutionalized one. This top-down determined account serves as the basis for guiding firms to collectively defy the customer entrepreneurship logic if it is deemed to be incompatible with their prioritized form of interdependence. An *open-ended account* does not synthesize multiple stakeholder views and avoids the construction of determined guidelines for action. As a result, firms generating an open-ended account resort to a repertoire of response strategies in a flexible manner. At the practice level, for example, an open-ended account enables a form of decoupling strategy in which firms, under normal conditions, attempt to reject the interdependencies with customer–entrepreneurs but, in an emergency, capitalize on them behind the scenes.

Put simply, facing a customer-entrepreneurship logic, firms engage in the process of: (a) 'response guideline construction', which involves the interpretation of legitimacy and efficiency compatibilities, integration of stakeholder perspectives, and generation of a determined or open-ended account; and (b) 'guideline-based organizational response', which unfolds in a resolute form of defiance or a flexible form of decoupling. In principle, firms may choose to acquiesce to the new logic and integrate customer–entrepreneurs into the official sales/marketing channels (e.g., Pache and Santos, 2010). Such acquiescence, however, was not evident in the present study because it was seen as incompatible with the institutionalized logic of our case firms, which had long guided them to pursue sales and marketing through 'regularized inter-organizational relationships' with formal organizations in the industry (2011, p. 335). Another viable strategy, in theory, is compromise, in which firms respond 'through conforming to the minimum standards of what is expected…or through bargaining with institutional referents so that they alter their demands' (Pache and Santos, 2013, p. 975). This compromising effort, likewise, was not observed in our cases. The main reason for this is that the customer entrepreneurship logic was initiated by 'the newer and/or less powerful participant' from the periphery of the field (1991, p. 356). A compromising response is unlikely in this context, as opposed to the situation in which logic is created by powerful actors (e.g., regulatory authorities), and therefore firms need to haggle with the powerhouse 'to reduce the frequency or scope of its compliance' with the pressure from the emerging logic (Oliver, 1991, p. 154).

Theoretical Implications

Discovering and managing interdependence with customer–entrepreneurs

This study contributes to the IOR studies by providing implications for understanding how firms discover and respond to the interdependencies with customer–entrepreneurs, which represent a new type of actor in the recent inter-organizational landscape. Looking at the interactions between two large cosmetics producers and daigou agents, we identify that the discovery and management of interdependence with customer–entrepreneurs markedly differ from 'organizational responses taken to cope with […] interdependence' with formal organizations (e.g., Gulati and Gargiulo, 1999; Pfeffer, 1972; Pfeffer and Nowak, 1976, p. 402).

The first implication concerns the way in which firms discover their interdependencies with customer–entrepreneurs. Our findings reveal that firms tend to recognize, in hindsight, the existence of customer entrepreneurship logic, thereby engaging in organizational sensemaking to generate an actionable guideline in response to the, retrospectively discovered, new form of interdependence. In practice, this means that firms engage in repetitive transactions with customer–entrepreneurs and even achieve sales growth and market expansion, but they might still misunderstand the true identities of customer–entrepreneurs and the true reason behind their success. Indeed, our case firms initially thought of customer–entrepreneurs (i.e., cosmetics re-sellers) as being the same as common consumers. Only after customer–entrepreneurs had reached a critical mass did the firms realize their interdependencies with what they hitherto misunderstood as end-consumers, and the implications of such interdependence. This finding stands in contrast to the proposition of IOR studies, which predicts that the discovery of interdependencies between formal organizations results from the 'quest for complementary capabilities and resources' in their environment (Gulati and Gargiulo, 1999, p. 1460).

The reason for this difference is understandable if viewed through the lens of the institutional field. Institutional researchers have submitted that organizational action is influenced by the position of the firms within an organization field (see, for example, Battilana, Leca, and Boxenbaum, 2009; Reay and

Hinings, 2009). Large firms, in general, act as a central actor in a given industry (or field), thereby leading the core activities of the industry, formulating ‘regularized inter-organizational relationships’ with formal organizations in the industry and attempting to institutionalize these inter-organizational activities (Ahmadjian and Robinson, 2001; Greenwood, 2011, p. 335). In the eyes of such central firms, the practice of customer–entrepreneurs that are located outside the firms’ networks and at the periphery of the industries is not easily noticeable; nor is it readily understandable (Reay and Hinings, 2009; 1991). Small firms, in principle, could recognize the interdependencies with customer–entrepreneurs faster than large firms because they are positioned closer to customer–entrepreneurs at the periphery. Yet, small firms rarely possess the resources that are essential for customer–entrepreneurs, so the phenomenon might be more common for large firms.

The second implication concerns how firms respond to the discovered interdependencies with customer–entrepreneurs. The extant research on formal IORs has observed that the interdependencies between formal organizations are pushed forward through a recursive sequence of partner selection and formalization (Vlaar, Van den Bosch, and Volberda, 2006; Vlaar, Van den Bosch, and Volberda, 2007; 2000; 2010). In contrast with this observation, our findings identify that firms enact sensemaking as a first step to managing the interdependencies with customer–entrepreneurs and rarely formalize them.

We argue that firms do not jump into partner selection because of the uncertainty stemming from the new logic of customer entrepreneurship. Specifically, the emerging logic of customer entrepreneurship invites an organizational reality in which firms face substantial uncertainty arising from a dearth of understanding about the new form of interdependence. The degree of such uncertainty is far more intensive than that which surfaces when firms deal with the interdependencies with formal organizations, because potential partners are complete strangers from outside the firms’ networks. Our findings suggest that, under such circumstances, the discovered interdependence does not serve as a sufficient condition to urge firms to engage in partner selection that aims to acquire information about certain potential partners (e.g., Glaister and Buckley, 1997; Inkpen and Li, 1999). Instead, firms need to enact sensemaking, through which leaders and staff members attempt to comprehend the new form of interdependence suggested by the customer entrepreneurship logic and create coherent understandings that enable a collective response (Garreau, Mouricou, and Grimand, 2015; Maitlis, 2005; Weick, 1993).

Our results also show that firms attempt to defy the new form of interdependence with customer–entrepreneurs, rather than trying to formalize it. We suggest that the reason for this is that many customer–entrepreneurs create desirable outcomes for end-consumers; yet, such ends are often achieved through varying degrees of illegal means. Institutional researchers define these actors undertaking ‘illegal yet legitimate’ activities as a main constituent of the informal economy (e.g., Darbi, Hall, and Knott, 2018; Webb et al., 2009, p. 492). In addition, institutional studies have shown several cases in which organizational legitimacy is challenged because of the firm’s relational ties with informal economy actors. For example, Lamin and Zaheer (2012, p. 49) outlined that the legitimacy of ‘Nike, Walmart, and Gap’ was threatened after ‘using sweatshop labor in developing countries’, even though such outsourcing parthersships themselves had no legal problem. By implication, formal relationships with informal economy actors tend to be seen as an ‘unpopular’ deviation from institutional isomorphism and therefore tend to be regarded as illegitimate interactions, notwithstanding the legal status of such ties (Lamin and Zaheer, 2012, p. 47; Meyer and Rowan, 1977; Seo and Creed, 2002). As our findings demonstrate, this legitimacy issue is addressed in sensemaking processes that ask whether the interdependence with customer–entrepreneurs is compatible with what has been ‘considered legitimate organizational aims, actions, and outcomes’ (Bertels and Lawrence, 2016, p. 4; Pache and Santos, 2010). Our case firms both regard the interdependencies with customer–entrepreneurs as illegitimate linkages, thereby attempting to crack down on the source of this new form of interdependence.

However significant the legitimacy pressure is for firms, we identify that functional efficiency is also factored largely into organizational sensemaking (see also Boxenbaum and Jonsson, 2008; Meyer and Rowan, 1991). Therefore, sensemaking processes involve not only the interpretation of legitimacy compatibility but also the pairwise interpretation of the 'efficiency gap', defined as the inefficiency produced by conforming to institutionally acceptable practices (Seo and Creed, 2002, p. 227). Such an efficiency concern serves as a springboard for exercising agency that triggers the variation in a firm's response strategy to the customer entrepreneurship logic (Pache and Santos, 2010; Seo and Creed, 2002). This explains why one of our case firms engages in a form of decoupling strategy in which the firms, under normal conditions, attempt to defy the interdependencies with customer–entrepreneurs but, in an emergency, capitalize on them behind the scenes.

Sensemaking and organizational response to institutional logic

We also contribute to the literature on institutional logic by identifying two forms of sensemaking that result in the variance in organizational responses to institutional logic. Although the extant literature has emphasized the significance of sensemaking in the manifestation of institutional pressures within organizations, the inner work of such 'interpretation and filtering processes' has largely been under-researched (see, for example, Pache and Santos, 2010; Thornton, Ocasio, and Lounsbury, 2012; Wooten and Hoffman, 2008, p. 61). For example, Bertels and Lawrence (2016) observe that organizational sensemaking results in variance in the form and scope of response vis-à-vis a newly emerging logic; yet they do not examine the internal mechanism of the sensemaking that causes the variance in organizational action.

This study reveals that heterogeneity in organizational responses results from the type of account produced in sensemaking processes. Facing institutional logic, firms attempt to make sense of its compatibility with their espoused current practice. This sensemaking process tends to unfold with leaders and staff members generating multiple interpretations of the compatibility issues (Maitlis and Christianson, 2014; Maitlis and Lawrence, 2007). Our findings identify that leaders in some firms generate a *determined account* that firmly concludes the compatibility between institutional logic and the firms' espoused practice, and whether they should accommodate the logic that is determined to be compatible (or incompatible). Because the stakeholder views are unified into a single account in a top-down manner, firms engage in a consistent, collective response to institutional logic. Furthermore, in a determined account, firms resolve a choice calculus between their espoused practice and the prescription of institutional logic, thereby being unlikely to resort to a middle-ground approach, such as compromise and symbolic compliance. Rather, firms tend to defy the logic if they decide to prioritize their current practice. Our findings also reveal that firms can produce an *open-ended account,* whereby leaders leave multiple stakeholder views unreconciled and eschew the construction of resolute guidelines in response to institutional pressures. As Meyer and Rowan (1977, p. 357) put it, 'because integration is avoided', firms generating an open-ended account can resort to several forms of decoupling strategy; in the present study, one of our case firms decouples its practice under normal conditions from those taken behind the scenes in an emergency (for a similar decoupling strategy, see Beverland and Luxton, 2005; Elsbach and Sutton, 1992).

Practical Implications

Our findings provide implications for managers coping with interdependence issues, especially in the domain of international business. First, the emerging logic of customer entrepreneurship requires managers to equip themselves with a new means of interdependence management. Our findings suggest that a viable approach that satisfies both legitimacy and efficiency considerations include a decoupling strategy that intermittently capitalizes on the resources of customer–entrepreneurs behind the scenes. Indeed, a similar decoupling approach has proven fruitful in prestige wineries (Beverland and Luxton, 2005) and social movement organizations (Elsbach and Sutton, 1992). Yet, a decoupling strategy should be taken with the caveat that it hardly serves as a long-term measure. Managers may temporarily resort to a decoupling strategy and meanwhile attempt to identify an enduringly functioning measure to deal with customer–entrepreneurs. Long-term solutions should accommodate the entrepreneurial motivation and creativity of customers, while, at the same time, aligning with prevailing regulations and the rules of the game in the industries. In addition, firms may even provide customers with legal channels to participate in the ecosystem of the firms. This will enable firms to expand the markets in a legitimate manner. Second, as digital platforms become increasingly prevalent, a more diverse type of customer–entrepreneur will enter the industries, bringing with them unfamiliar practices in the eyes of managers. As our findings show, these new actors emerge from the periphery of the industries, meaning that managers need to pay attention to the dynamics arising from peripheral actors.

Limitations and Future Research

This study is not without limitations, and, as such, relevant further research directions are identified. First, our findings result from a specific industrial context, so their generalizability is subject to the boundary condition in the present study. Building on our findings derived from the cosmetics industry, future research could explore the interdependence between firms and customer–entrepreneurs in other organizational fields. Second, this study focuses on the dyadic linkage between product–manufacturing firms and customer–entrepreneurs. In addition to this dyad, customer–entrepreneurs create multi-pronged interdependencies with digital platforms and diverse service firms. By implication, customer–entrepreneurs represent a hitherto under-researched component of ecosystem studies in which customers are typically portrayed as business-to-business buyers or end-consumers in the downstream products/services markets (e.g., Aarikka-Stenroos and Ritala, 2017; Adner and Kapoor, 2010). Future work could examine the implications of this new type of digital entrepreneurship (see Autio et al., 2018); for example, how ecosystem leaders manage their new interdependencies with customer–entrepreneurs and how the balance of the ecosystem is tilted as a result. Relatedly, future research may dive into multi-pronged interdependencies with customer–entrepreneurs, and their 'stakeholders[,] that provides a supportive environment for new venture creations' (Cao and Shi, 2020, p. 1; Spigel and Harrison, 2018). Finally, because customer–entrepreneurs espouse informal economy practices, it is likely that there will be several dark-side ramifications for firms and governments, requiring the oversight of relevant actors (see also Oliveira and Lumineau, 2019). Future research could explore an optimal policy framework tailored to dealing with these dark sides of customer entrepreneurship. In addition, the definition of informality in this paper covers a spectrum that is less broad than might potentially be possible, which encompasses activities involving legal means for an illegitimate end, or illegal means for an illegitimate end. Considering this boundary condition, future work may probe whether our findings apply to the potentially broader population of informal customer entrepreneurs. Despite these limitations, we believe that our paper contributes to a better understanding of how firms discover and respond to the new form of interdependencies with customer–entrepreneurs, and it will act as a platform for further research in this complex area.

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Table 1. Representative IOR developmental models

Author(s)	Model summary
D'Aunno and Zuckerman (1987)	• Life-cycle model of federation • Developmental process: emergence of a temporary federation – transition to a federation – maturity of a federation – withdrawal from a federation or moving toward a merger or common ownership
Dwyer et al. (1987)	• Life-cycle model of buyer–seller relationship • Developmental process: awareness – exploration – expansion – commitment – dissolution
Larson (1992)	• Life-cycle model of alliance • Developmental process: setting the stage for an alliance – engagement – integration and control
Kanter (1994)	• Life-cycle model of alliance • Developmental process: selection and courtship – getting engaged – setting up housekeeping – learning to collaborate – changing within the parties involved – terminating
Ring and Van de Ven (1994)	• Teleological model of IORs • Developmental process: negotiation – commitment – execution – ongoing assessment across entire processes
Wilson (1995)	• Life-cycle model of buyer–seller relationship • Developmental process: search and selection – defining purpose – boundary definition – value creation – stable relationships
Doz (1996)	• Teleological model of alliance • Developmental process: setting out initial conditions – alliance inception – learning – re-evaluation – re-adjustment (i.e., corrective actions) – a continuous sequence of the learning/re-evaluation/re-adjustment cycle
Brouthers et al. (1997)	• Teleological model of alliance and joint venture • Developmental process: selecting mode of operation – partner selection – negotiation – managing an IOR – evaluating the IOR's performance
Ariño and de La Torre (1998)	• Teleological model of international joint venture • Developmental process: negotiation – commitment – setting out initial conditions – execution – learning – re-evaluation – multiple 'learning–action–reaction' loops – dissolution
Das and Teng (2002)	• Teleological model of alliance • Developmental process: alliance environment – alliance conditions – formation – operation outcome
Batonda and Perry (2003)	• Teleological model of network • Developmental process: searching – starting – development – ongoing maintenance – termination
Ness (2009)	• Teleological model of alliance • Developmental process: alliance initiation – initial relational practice; governance structuring; and negotiation – evolving relational practice; governance structuring; and negotiation – alliance reconfiguration or termination
Le Ber and Branzei (2010)	• Teleological model of social alliance • Developmental process: search and selection – (de)coupling risk and social value creation potential – multiple loops of 'role (re)calibrations and momentum for success or failure' – dissolution
Wang (2015)	• Teleological model of social alliance • Developmental process: social alliance initiation – increasing risks due to ill-managed critical success factors – risk management – renewed structure of a social alliance

Table 2. Description of the data

Informants	Data source	Use in analysis
BeautyMore	• 18 interviews with 13 organizational members (March 2016–Sep 2019); the first author asked which activities the firm undertakes in response to daigou agents and the sensemaking processes underlying those responses. • One meeting with the head and staff members of the strategy unit; the first author explained the origins and operation of daigou agents and discussed potential response strategies to daigou agents.	• Contributed to gaining an initial sense of the phenomenon under study (especially the first few interviews). • Coded to generate initial, basic-level concepts capturing the activities and responses of BeautyMore, in response to daigou agents. • Revisited to refine and extend the emerging theoretical ideas.
SkinGood	• 15 interviews with 7 organizational members (Aug 2016–Jan 2019); the interview questions used for BeautyMore were more or less repeated.	• Used as a comparison group to extend, enrich, refine and/or verify the initial concepts generated through analysis of the BeautyMore data. • Used in the same manner as BeautyMore's data.
Daigou agents	• 26 interviews with 11 owners of daigou agents distributing BeautyMore and SkinGood's cosmetics (Dec 2015–May 2019); the first author asked about their daily operations, the responses of our case firms, and how daigou agents react to such firms' behaviors. • The first author observed each daigou agent's social media activities for two months, respectively; a total of three days' observation of one daigou agent.	• Used to refine our findings, confirm conflicting perspectives and uncover the potentially concealed practices behind the scenes. • Used in the same manner as the BeautyMore data.
Duty-free store managers	• Ten interviews with six staff members of duty-free stores in Seoul (Aug 2016–Jan 2019); the first author asked which activities the duty-free stores and our case firms undertake in response to daigou agents.	• Used to refine our findings, confirm conflicting perspectives and uncover potentially concealed practices behind the scenes.
Franchise store managers	• Two interviews with two sales managers working for BeautyMore's franchise stores (Jan 2018); the interview questions were based on what our case firms had said.	• Used to triangulate our data and uncover potentially concealed practices behind the scenes.
Reporters	• Two interviews with two reporters working for the news agencies specializing in cosmetics industries (Jul 2017); the interview questions revolved around the industry-wide change stemming from the emergence of daigou agents.	• Coded to generate initial, basic-level concepts capturing the influence of daigou agents on the cosmetics industry.

Table 3. Sensemaking processes in the case firms

Case firm	Form of sensemaking
BeautyMore	**(a) Interpretation of legitimacy and efficiency compatibilities** Daigou agents, in the long run, do more harm than good. So, [using them] is not efficient eventually. Their illegal activities can also damage our brand value if we sell cosmetics through them. The top management team also thinks in this way (internal auditor, 2016). **(b) Top-down integration of stakeholder perspectives** Why on earth does our C-Suite view daigou agents just as an illegitimate sales channel? Nonsense. Our growth was down to daigou agents. I don't think this [daigou] channel should be rejected…but the senior management doesn't listen to us (senior retail strategist, 2018). **(c) Determined account** Well, there is no codified rule, but it is taken for granted that we, the staff members, do not rely on daigou agents. This view is firmly engraved in the minds of all the employees working for this company (e-commerce team leader, 2017).
SkinGood	**(a) Interpretation of legitimacy and efficiency compatibilities** For us, the daigou channel was a rather dirty sales channel… Yet, we saw a low-cost marketing effect from daigou agents… The reason why we initially said 'no' to the daigou channel was that it did not fit into our traditional category of sales channels (senior marketing strategist, 2019). **(b) No integration of stakeholder perspectives** Our CEO is more open-minded about the daigou sales channel… Our C-level management cares less about the micro-details of daigou agents (sales team leader, 2018). We did not openly share our views and information about daigou agents. Nor did our CEO… We tried not to talk about the daigou issue because some staff members would say, 'daigou agents will ruin our brand value', and 'you are doing wrong practice'. We knew that we would face this challenge, which was why we were not open about what we do and how we think (senior marketing strategist, 2019). **(c) Open-ended account** Perhaps the sales unit will try to take advantage of daigou agents to make more revenue. However, strategy-wise, we don't do anything with daigou agents… If the sales unit wants to use daigou agents, there is no reason to stop them doing so… This is entirely up to them (strategy team leader, 2017).

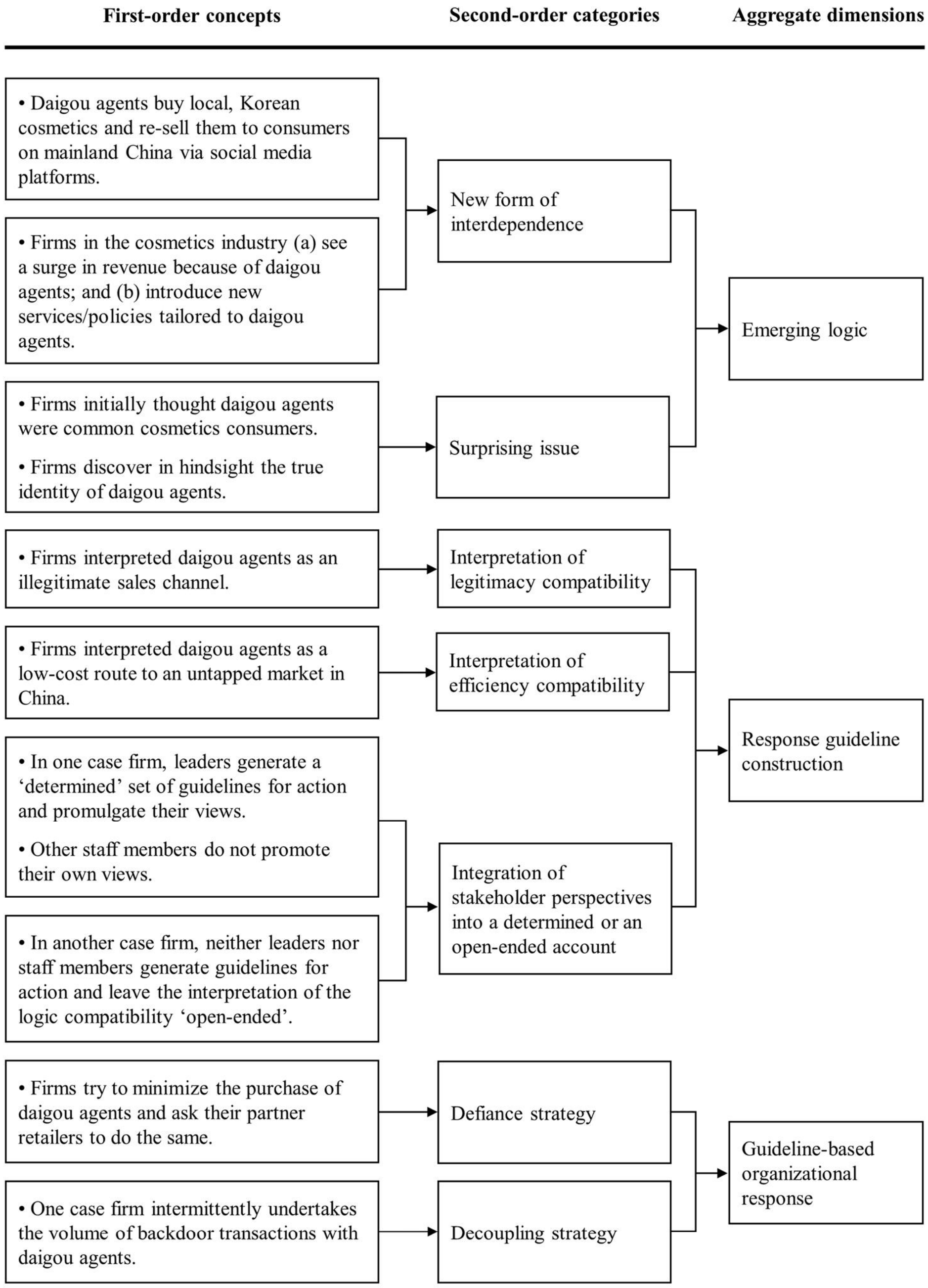

First-order concepts
Second-order categories
Aggregate dimensions
• Daigou agents buy local, Korean cosmetics and re-sell them to consumers on mainland China via social media platforms.
• Firms in the cosmetics industry (a) see a surge in revenue because of daigou agents; and (b) introduce new services/policies tailored to daigou agents.
New form of interdependence
Emerging logic
• Firms initially thought daigou agents were common cosmetics consumers.
• Firms discover in hindsight the true identity of daigou agents.
Surprising issue
• Firms interpreted daigou agents as an illegitimate sales channel.
Interpretation of legitimacy compatibility
• Firms interpreted daigou agents as a low-cost route to an untapped market in China.
Interpretation of efficiency compatibility
Response guideline construction
• In one case firm, leaders generate a 'determined' set of guidelines for action and promulgate their views.
• Other staff members do not promote their own views.
• In another case firm, neither leaders nor staff members generate guidelines for action and leave the interpretation of the logic compatibility 'open-ended'.
Integration of stakeholder perspectives into a determined or an open-ended account
• Firms try to minimize the purchase of daigou agents and ask their partner retailers to do the same.
Defiance strategy
Guideline-based organizational response
• One case firm intermittently undertakes the volume of backdoor transactions with daigou agents.
Decoupling strategy

Figure 1

Figure 2

A. Purchasing cosmetics

Daigou agents buy Korean cosmetics at the multiple sales channels of cosmetics firms. The figure above shows numerous daigou agents queuing up to buy a certain Korean cosmetic product.

– Personal observation
July 27, 2017

At the storefront, daigou agents take photos of cosmetics using smartphones, and then send the photos to customers so that they can make real-time purchases.

– Personal observation
August 23, 2016

Some daigou agents make bulk purchases of cosmetics and keep the items in stock. The figure illustrates a daigou agent (called Yegun) stocking three boxes of cleansing foam from our case firm.

– WeChat post observation
August 1, 2019

B. Advertising cosmetics

A daigou agent (called Gullim) posts the photos of the purchased cosmetic products with marketing text on WeChat. The caption is translated as follows:

630 RMB. SkinGood's skin serum is currently in stock. Released as a limited edition once a year, this serum is available in an attractive, large storage ceramic jar (130ml). Apply this nutritional skincare treatment after facewash.

– WeChat post observation
September 10, 2019

A daigou agent (called Ari) advertises that it has a price advantage compared to SkinGood's official stores in China. The caption is translated as follows:

Here comes the first official SkinGood store in China. Can you imagine how expensive the products are there? If you buy it through me, you will be laughing all the way to the bank.

– WeChat post observation
July 13, 2016

A daigou agent (called Yegun) live-streams her shopping and has a real-time conversation with her customers, which is shown on the bottom-left-hand side of the figure.

– WeChat post observation
July 9, 2019

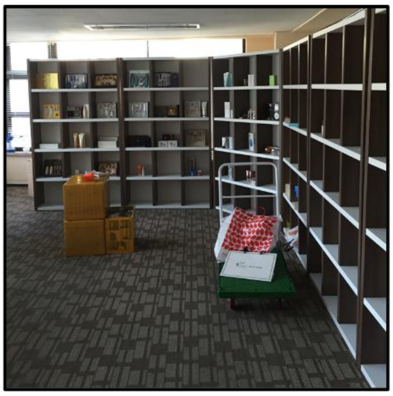
C. Selling cosmetics to customers

A daigou agent (called Gullim) sells the cosmetic products to his customers, who immediately make payments via WeChat.

WeChat post observation
August 7, 2016

A customer orders the desired cosmetics from a daigou agent (called Ann) and immediately makes payments via WeChat.

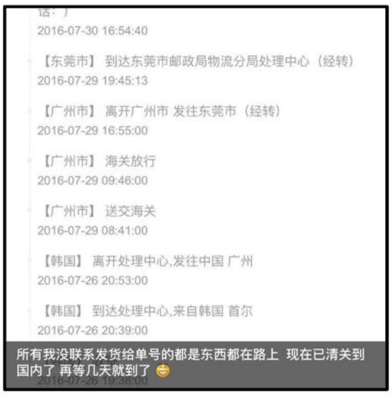
WeChat post observation
August 18, 2016



A daigou agent (called Yegun) runs a physical store in Seoul and sells cosmetics exclusively to individual daigou agents or Chinese tourists.

Personal observation
August 27, 2016

D. Delivering cosmetics to customers



A daigou agent (called Ann) bought Korean cosmetics from local stores and sent them to her home address in China, using an expedited mail delivery service. She shared a delivery status with her customers through WeChat posts.

Personal observation
August 1, 2016

Many daigou agents buy cosmetics from duty-free stores in Korea and collect the purchased items at airports. The duty-free operators, collectively, installed what they labeled a 'repacking area' (see the top side of the figure) at the airports so that daigou agents can conveniently unwrap and re-package the collected items to fit in their suitcases. Daigou agents bring their luggage, loaded with consumer goods for re-sale, back to their home addresses. On arrival in China, daigou agents distribute these items to their customers.

Personal observation
March 3, 2018

Small-sized delivery firms launched a new courier service, called '*baotongguan*'. This service collects the items from daigou agents and ships the parcels to their destination in a tax-evading manner. All of our interviewees regularly used this service. The figure illustrates a delivery man (see the middle of the figure) collecting the parcels (i.e. goods for re-sale) directly from a group of female daigou agents.

Personal observation
August 27, 2017

Figure 3

A. Defying

The figures inserted here and below capture the personal observation undertaken on Feb 22, 2018. Approximately twenty Chinese 'males' were queuing up to buy BeautyMore female cosmetics (the figure on the left-hand side). They are part-time workers recruited by one daigou agent. Knowing this, the sales manager came out to check their IDs and to explain that there is a purchasing limit (the figure on the right-hand side). BeautyMore also implemented an identical clampdown policy on its online sales channels. The following quote is illustrative:

> Because our firm cracked down on the purchasing of daigou agents on our offline sales channels…they moved onto our online sales channel to buy cosmetics for re-sale because there was no purchase limiting program on the online channel. As a result, online product orders suddenly increased, and we found this surge uncommon. We began to think that we have to monitor the online sales channel as well to protect our customers from this informal sales channel. Therefore, we started cancelling multiple online orders placed from the same address and put a limit on the number of orders that an online consumer can make… Now, everyone is talking about the difficulty of sourcing our cosmetics for re-sale.
>
> – Interview with the e-commerce team leader of BeautyMore, 2017

B. Decoupling

As shown in the figure on the left-hand side, a member of a daigou business stood around 20 meters away from a SkinGood store. In the meantime, SkinGood staff members were loading hundreds of cosmetics onto pallets (the figure in the middle) and moving them to somewhere else following the lead of the daigou business members (the figure on the right-hand side). The sales team leader explains:

> Basically, sales managers have to pay a penalty for this backdoor transaction. So, BeautyMore is doing the right thing. However, now is exceptional. By exceptional, I mean that we made virtually no sales for the past two weeks. The reason being that daigou agents all went back to China to celebrate Chinese New Year… Only three days before have daigou agents come back and we have begun to make sales again… This means that now each store has to make a significantly higher sales volume than its usual daily capability until tomorrow, which is the deadline for the monthly sales target. So, the salespeople on the storefront did a sort of trick, I would say.
>
> – Interview with the sales team leader of SkinGood, 2018