Chapter 4 - Markets and institutional swamps: tensions confronting entrepreneurs in developing countries

4.1 Introduction
Entrepreneurs are catalysts of economic development (Seelos and Mair 2007; Mair et al. 2012), but, in developing countries in particular, their potential is not realized (Sutter et al. 2013). This stunted contribution of entrepreneurs to economic development is attributed to a weak institutional environment (Khanna and Palepu 1997; 2000; Mair and Marti 2009; Sutter et al. 2013). Institutions prescribing certain behaviors and dissuading other behavior, allow markets to function and firms to at least survive, if not to enjoy some measure of success (North 1990; 1991). When institutions are absent, markets are dysfunctional and most firms face a situation too uncertain to be successful. Small scale and entrepreneurial firms are particularly vulnerable in a weak institutional environment.

Weakness of institutional environments is defined as a dearth of formal, market-based institutions (or their enforcement). Examples include weak (absent) contract law and property rights law. Khanna and Palepu (1997) introduced the concept of institutional voids to describe such situations. The term ‘institutional void’ suggests emptiness, a vacuum that can relatively easily be filled (Mair et al. 2012). Adding formal, market-based institutions, ready-made from other jurisdictions, is then expected to stimulate economic development.

In reality, however, entrepreneurs do not face institutional voids, even for activities where no formal market-based institutions exist in a country (jurisdiction), but a rich and complex fabric of institutions that affect them instead (Mair et al. 2012). Informal institutions, or formal institutions that aim to regulate adjacent activities, will impinge on a practice for which no formal institutions exist. An institutional fabric thus is rich and complex even when some formal institutions are lacking. No sphere is institutionally void. Formal institutions regulating other practices may indirectly affect a focal practice, and informal institutions may directly or indirectly affect a focal practice as well. Moreover, as institutions are developed to address different practices, they may produce tensions. A tension arises when different institutions impinge on the same focal practice yet prescribing behaviors that are inconsistent or even in conflict with each other. Tensions arise even when different formal institutions directly relevant for a focal practice prescribe different behaviors. An institutional fabric that regulates a focal practice can be riddled with institutions that prescribe such diverse behaviors that the actors in it find themselves caught
in what we call an institutional swamp. Actors caught in an institutional swamp are not likely to be successful economically since they are vulnerable to unexpected enforcement actions. However, the swamp can also be seen as a challenge, as it may give room for institutional entrepreneurship that changes the institutional fabric and forms the root for successful entrepreneurial activity.

While previous research on institutions – especially in economics and political science – focuses on formal institutions, such an emphasis tends to omit that these institutions interact with other institutions (Rakner and Randall 2011: 60). We argue that the outcomes of institutional arrangements can only be understood when taking into account the various interactions between institutions – especially when those interactions cause tensions. In the current chapter we provide an analytical framework to understand the ‘on-the-ground dynamics’ and complexities (Mair et al. 2012: 819) in an institutional fabric that is not characterized by voids but by possible institutional swamps. Analyzing all the different institutions impinging on a particular practice - entrepreneurial behavior in a well-defined and recognizable market setting – allows us to identify tensions resulting from contradicting prescriptions for behavior from diverse institutions, as well as heterogeneous responses to tensions. What opportunities and difficulties entrepreneurs face, what choices they make, and what chances of success they have, is best understood when realizing that institutional spheres are always filled rather than void, but that behaviors prescribed can be in conflict.

We do so by presenting and analyzing empirical data on farmer organizations in a developing country, as here entrepreneurs are confronted with different types of institutions prescribing conflicting or contradicting behaviors. We submit that any practice, even the entrepreneurial activities of smallholders producing a highly homogenous agricultural commodity such as sesame seed in Humera, Ethiopia - a remote, barren corner of Africa - will have institutions that regulate the behavior of actors in it. We argue that this is an interesting setting for understanding an institutional swamp and the behavior of actors, formal and informal institutions. The major reason for this is that the sesame market in Ethiopia is quite young and booming in the last decade. As in many developing and emerging markets, the institutional fabric that governs decisions of the actors involved is changing quickly and, therefore, provides an interesting context for our analysis. The case studies show that if the concept of institutional voids is adopted the on-the-ground-dynamics are insufficiently understood as too much attention is paid to missing formal market-based institutions, while the importance of tensions between these institutions and informal and indirect institutions is ignored. This also leads to the neglect of the role of individual actors and collective action to accommodate tensions between institutions. We find that both entrepreneurial failures and successes can better be understood
and explained by means of studying the richness and complexities of the institutional environment of the entrepreneurs using the framework that we propose than by means of studying only what the ‘voids’ are.

We proceed by first discussing relevant literature in Section 2, suggesting a conceptual framework. Section 3 elaborates on method and data, which are analyzed in terms of the framework in Section 4. We discuss our findings and provide conclusions in the final section (5).

4.2 Literature
Institutions are societies' devised rules, norms, values, or agreements that constrain certain behaviors in order to stimulate others (North 1990; 1991). An institutional environment at any aggregation level – country, industry, market – will be affected by a number of different institutions (North 1990; 1991; Mair and Marti 2009; Sutter et al. 2013). Some claim that a lack of economic development and entrepreneurial failure is due to missing formal institutions, an institutional void (Khanna and Palepu 1997, 2000; Mair and Marti 2009). In reality, institutional fabrics are complex and rich in character, even when (some) formal institutions that regulate a practice elsewhere are lacking in a country under study. Not recognizing this deprives one of an explanation of complexities and “on-the-ground dynamics” (Mair et al. 2012: 819) in a practice. What expectations of success players in a market have depends on the institutions they are confronted with.

The institutional fabric: 4 types of institutions
To analyze the institutions entrepreneurs are confronted with, and moreover competition between contradicting or conflicting institutions, we distinguish between four types of (interrelated) institutions. Conceptually, our framework is aligned to Helmke and Levitsky’s (2006) notion of competing institutions, i.e. interactions between institutions that cause dysfunctionality. In order to study such interrelations it is beneficial to first identify the relevant institutional dimensions that allow identification of fabrics of interrelated institutions in which, as we argue below, a swamp can develop. The first dimension that is relevant in our context is the differentiation between formal and informal institutions. Formal institutions comprise societies’ “constitutions, laws, [and] property rights” (North 1991: 97). Formal institutions are codified, written down, and enforced by State bodies. Within countries formal institutions generally apply in the whole country and are equal for all the citizens. Informal institutions concern societies’ “sanctions, taboos, customs, traditions, codes of conduct”, (North 1991: 97) and “religious beliefs” (Mair et al. 2012: 820). Informal institutions may differ between countries, groups and even individual actors. We believe that this dimension is of such importance since informal and formal institutions can have a variety of interrelations enhancing effectiveness (e.g.
formal and informal institutions being complements and increasing their joint effectiveness, or informal institutions substituting non-functional formal institutions) or the opposite (e.g. formal and informal institutions competing with each other or being in an accommodating interrelationship) (cf. Helmke and Levitsky 2004).

Next to this differentiation, we argue that a second dimension is of crucial importance to understand the context in which institutional swamps may emerge, since competing and contradicting institutions may not only occur between formal and informal institutions but also among formal and informal institutions. In addition, while markets are a universal institution of exchange, institutions regulating behaviors of actors in markets are not only based on general grounds of market exchange (Rawls 1995). Market exchange is embedded in a wider space of social exchange. As such it can be argued that market exchange also depends on institutions that do not primarily address market exchange. In other words there are institutions directly targeting the practice of market exchange, while other institutions are based on other grounds but may yet indirectly still affect markets. Therefore, we distinguish between institutions that directly target the market and those that influence behaviors and outcomes indirectly. Direct institutions are best described with existing definitions of economic institutions “that define the production, allocation and distribution process of goods and services” (Jütting 2003: 14), comprising property rights, market mechanisms, contracts, money, and technology. Indirect institutions are those that do not primarily aim to influence production and allocation – but may indirectly do so (Rawls 1955). Such indirect institutions are closest to the concept of nonmarket forces comprising “social, political and legal arrangements that structure […] interactions outside of, and in conjunction with, markets” (Baron 1995: 48).

Conceptually then, we can derive four types of institutions (Figure 1):

1. Direct formal institutions
2. Direct informal institutions
3. Indirect formal institutions
4. Indirect informal institutions

To make the abstract logic above more clear, consider the examples below that we derived from literature. Firstly, concerning direct formal institutions, the before-mentioned contract-law enforcement, protection of property rights, as well as established capital markets, and other supporting apparatuses serve as examples (North 1990; 1991; Mair and Marti 2009; Sutter et al. 2013). Secondly, an example of direct informal institutions may concern the status of an entrepreneur. While in Western societies entrepreneurs may enjoy status,
scholars found that in communist regimes and transition economies there were negative connotations to the term private enterprise or entrepreneurship. Entrepreneurs may lack status and respect (De Clercq, Danis, and Dakhli 2010). According to Aidis, Estrin, and Mickiewicz (2008: 658) entrepreneurs in the Soviet Union were “equated with ‘speculators’ and often deemed criminals for making a profit”. Another example includes the acceptance of interest payment. Islamic banks do not permit contracts in which interests are paid or received (Ergeç and Arslan 2013), even if this is formally allowed. Furthermore, a recent study found that ethnicity plays an important role in selecting business partners (Hegde and Tumlinson 2014). Thirdly, concerning indirect formal institutions, one may think of a society’s political system. Acemoglu and Robinson (2006) model how political institutions (“including dictatorships, absolute monarchies, oligarchies, and corrupt or even populist democracies”(p. 325)) affect economic institutions and outcomes. Furthermore, one may think of the ways in which marriage law and inheritance law (cf. Carney, Gedajlovic, and Strike 2014), or environmental regulations may affect entrepreneurial behavior. Concerning the latter, Dean, Lovely, and Wang (2009) found that a country’s regulations concerning pollution is, under certain conditions, one of the factors affecting foreign direct investment decisions. Fourthly, and finally, indirect informal institutions include examples of culture in general. Hawkins (1993) contrasts the individual character of entrepreneurship to the group / collective orientation of Japanese culture. Individual acts of entrepreneurship go against accepted wisdom and are not valued in society. In other societies there are clear gender roles that prevent women from participating on the market. “Many societies continue to define women primarily through roles associated with family and household responsibilities. […] Further, the entrepreneur’s role is often characterized as being more masculine than feminine” (Baughn, Chua, and Neupert. 2006: 689). Citing Platteau (2000) Bernard, De Janvry, and Sadoulet (2010) argue that conservatism in African societies may prevent entrepreneurship. A major obstacle is that individual success is attributed to luck and not to effort. Since success is a consequence of luck, successful people are expected to share their success in the community. In addition if one is repeatedly more successful than others he or she can be thought to manipulate supernatural forces. Incentives to work hard are consequently reduced.

The figure below illustrates the four types of institutions in four different quadrants and where the above-mentioned examples fit. We refer to this figure as the institutional fabric. Although we use an idealized categorical distinction of institutions it is sometimes difficult to precisely delineate formal from informal or a direct from an indirect institution (cf. Helmke and Levitsky 2006). Indeed, we argue that the degree of formality or directedness should be rather understood as a continuum, while categorical representation eases clear representation.
Tensions between institutions: institutional swamp

The four types of institutions form the institutional fabric. Mair et al. (2012) already observed that this fabric is complex. We argue that this complexity results from inconsistencies, or tensions, between institutions. The concept of tensions forms a central part of the framework. We refer to a tension when actors in a certain institutional environment are confronted with two or more institutions prescribing different kinds of behavior that cannot coexist. In such a situation the actor will try to accommodate the tension by adhering more or less to a certain institution, while avoiding, though not ignoring, another institution (see also Oliver 1991).

Tensions may exist between institutions within a quadrant but also between institutions from different quadrants. For example, some formal direct institutions may stimulate market exchange while other institutions may result in high start-up or labor costs and, therefore, compromise market exchange (De Clercq et al. 2010; Hawkins 1993; Duvanova 2014; Estrin, Korosteleva, and Mickiewicz 2013; Fredriksson 2014). Similarly, market exchange is generally based on institutions that make no gender differences, however, informal institutions may create tensions if gender issues, as indicated above, influence the market behavior of men and women differently.

We use the metaphor of a swamp since differences in prescribed behavior may make entrepreneurs drown when they are not able to align the tensions. This is not to say that it is simply a matter of choice to the entrepreneurs whether or not they drown. It is merely to say that institutions may vary and so may behavior and behavioral outcomes. What behavior to choose, what institution to adhere to, may not necessarily be obvious to individuals, hence the tension. We stress that the concept of tension not only involves conflicting institutions prescribing different kinds of behavior that cannot coexist, but also includes the actual
behavior. Institutions are ontologically different from behavior and the one cannot be reduced to the other (Dolfsma and Verburg 2008).

_Tensions between institutions: institutional entrepreneurship_

The actual behavior concerns more than a choice. Individual entrepreneurs are embedded in an institutional context but their behavior may also change this context. This is also called the ‘paradox of embedded agency’, referring to tensions between institutional determinism and agency (Seo and Creed 2002). Several studies analyze institutional change processes and focus on the role of institutional entrepreneurs (Di Maggio 1988; Garud, Jain, and Kumaraswamy 2002). Institutional entrepreneurs are actors who have an interest in modifying institutional fabrics and have enough resources to do so (DiMaggio 1988). We follow Battilana, Leca, and Boxenbaum (2009: 72) in defining institutional entrepreneurs as “agents who initiate, and actively participate in the implementation of, changes that diverge from existing institutions, independent of whether the initial intent was to change the institutional environment and whether the changes were successfully implemented”. Although we acknowledge that contradicting institutions may drown institutional entrepreneurs in the swamp it is also possible that successful institutional entrepreneurs are able to change the institutional context and finally benefit from the tensions. It is even possible to see the tensions as a prerequisite or an enabling condition for institutional entrepreneurship (Seo and Creed 2002). From this we derive two important observations. First, tensions are not necessarily counterproductive as they may provide room for institutional entrepreneurship. Second, the institutional environment is not fixed for individual actors but can be moderated through their actions. In particular in young markets where the institutional environment is weakly developed or enforced, individual action may affect the institutional context.

Following the example on gender roles above, a woman in a certain society may choose not to become an entrepreneur because of informal institutions, or may decide otherwise because law allows her to do so, or even invites competitive actors to share their value-creating capabilities. Whichever behavior she chooses, in both cases she simultaneously adheres to certain institutions while avoiding or defying others (see also Oliver 1991). This implies that direct formal institutions are not absent, as the term ‘voids’ suggests, but rather that they may conflict with other institutions in the society. As a consequence of choices made by entrepreneurs within tensions, institutions and institutional fabrics may evolve. Continuing the example, this means that if women on a sufficiently large scale decide to start their own business, informal institutions may change as well as a consequence by accepting female entrepreneurship to a greater degree (North 1990).
We will illustrate the use of the framework with case study data from Ethiopia.

4.3 Methodology

We collected case study data among cooperatives of sesame seed farmers in the Northwest of Ethiopia. This county of the region Tigray called Kafta-Humera borders Sudan and Eritrea. Agriculture is the most important economic sector of Ethiopia. Tigray has provided the scenery of severe fights during wars between the DERG regime and liberation fronts (until 1991) and between Ethiopia and Eritrea (around the year 2000). During these wars, particularly the former one, many inhabitants either fled to Sudan or participated in the fights. It was not until after the war with the DERG regime that many farmers settled in the ‘low-land’ area Kafta-Humera that provides perfect conditions for cultivating the cash crop sesame. Increasingly farmers started cooperatives to increase benefits from sesame production and trade, particularly around the year 1997, 1998. We conducted 131 interviews during six visits to Ethiopia. We made use of qualitative data collection and analysis techniques as suggested by Eisenhardt (1989; 1991) and Yin (2003).

Selection of the research site

We made use of theoretical rather than random sampling, which is common for case study research. Theoretical sampling is important to increase external validity, which can be a weakness of case study research (Eisenhardt 1989). We developed different criteria for selecting Ethiopia / Kafta-Humera as the region for collecting data on institutions and responses.

We were interested in collecting data in a developing country where institutional environments are quickly changing. In addition we wanted to be able to study how competing firms each responded to institutional structures in this context. When searching for an industry to collect data we decided to collect data among sesame seed farmers in Northwest Ethiopia for a number of reasons. Firstly we chose for Ethiopia because the country is characterized by a high need to create institutions. After a long war the new government was installed in 1994. At that time formal direct institutions were changing quickly as a result of the regime change. The country has been developing quickly and the economy has been growing at a fast pace since the beginning of the twenty-first century. Secondly, sesame seed is a crop of major importance to the Ethiopian economy and therefore highly susceptible to policy making. After coffee it is the second largest source of export revenues. In the case of sesame seed farmers, institutions concerning the Ethiopia Commodity Exchange and cooperative formation and management were designed and enforced, among many other institutions. Thirdly, production of sesame increased tenfold the past decade. Particularly in Northwest Ethiopia production increased rapidly the past decade and the quality of the sesame is considered to be high. Since the last war major investments have
been made. Land which was formerly not used is now used for the production of sesame.

The emphasis in our data collection was on both the institutional environment and the behavior of entrepreneurs. We collected secondary data in terms of laws, proclamations, and principles concerning the formation of cooperatives and the trade in agricultural produce. Furthermore we interviewed a range of industry experts in order to map the institutional environment. Once we came to understand the institutional environment we interviewed farmers and leaders of cooperatives to study how they respond to the institutional environment. In the initial exploratory phase of our data collection we studied 9 cooperatives as potential cases in our study. Cooperatives were expected to be of crucial importance if the dynamics on-the-ground are to be understood. Collective action among relatively small farmers may allow them to develop the resources needed to accommodate the tensions and to develop institutional entrepreneurship (DiMaggio 1988). Interestingly, in this region many cooperatives operate according to the same regulations, but have yet developed differently. Eventually we used 4 cases as exemplary cases to be included in our study. These cases are used to draw our findings while avoiding too much data in our text. These 4 cases each demonstrated distinguishing characteristics that the other 5 cases could not complement (Eisenhardt 1989; Langley 1999). Most cooperatives behaved in similar ways as the cooperative Adebay. Adebay therefore represents the majority of cooperatives, while the other cooperatives, Humera 1, Humera 2, and Maikadra, are included because their behaviors differed despite the same institutional environment. These variances demonstrate how entrepreneurs can respond to tensions and how it affects performance.

We verified our results with industry experts to make sure that we had identified the relevant range of institutions and responses to institutions. In total we conducted 131 interviews with industry experts, managers of cooperatives, farmers (both member and non-member), consultants, exporters, researchers, NGO-staff, and government staff (Appendix B details the different types of interviews we conducted). The interviewees included what Eisenhardt and Graebner (2007: 28) call “highly knowledgeable informants who view the focal phenomena from diverse perspectives.” In addition we studied a number of reports on sesame production and trade, which were mostly developed by NGOs. Finally, we spent in total close to seven months in Ethiopia, because of which our observations became an important data source as well.

**Research process**
For our research aim both data on institutions and behavior needed to be collected. Data at both levels were collected in a reiterating process. We started with studying the formal institutional environment. Next we studied the farmers
and cooperatives, what they do, and how they perform. We sought explanations for the behavior of cooperatives by placing the cooperatives in the institutional environment and by complementing data on institutions to the extent that we could best understand how and why farmers and cooperatives performed in certain manners. Data collection was a reiterating process in which we started with industry experts and secondary data. Next we went to farmers and their organizations to verify and elaborate the data obtained from industry experts and secondary data. We went back to industry experts, farmer organizations, industry experts, etcetera. In addition we also conducted interviews with government staff and NGO staff in each of the stages of the data collection (in two-and-a-half years we visited Ethiopia 5 times and came back a year later for the sixth time to discuss results and analyses with industry experts) and read reports of NGOs and governmental organizations. By collecting data in this way and analyzing data halfway (see below) we aimed to be as specific as possible in describing firm behavior and to eliminate alternative explanations (Yin 2003).

Analysis
We selected polar cases in line with Eisenhardt and Graebner’s (2007) arguments for finding convincing case study data. We analyzed what explains different behaviors related to institutional constraints by competing organizations that are confronted with the same institutional environment. We presented our observations to a range of industry experts and researchers who each complemented, corrected, and or, reaffirmed the insights we were developing. We analyzed data three times: after our first visit, halfway, and after our last visit (Eisenhardt and Graebner 2007; Yin 2003). For our presentation of the data and findings we relied on insights by Eisenhardt (1989) and Eisenhardt and Graebner (2007). We tried as much as possible to show the depth and richness of our data while limiting case descriptions to the minimum amount necessary.

4.4 Findings
Direct formal institutions
According to direct formal institutions sesame seed farmers in Kafta-Humera have three sales outlets to choose from: 1) the cooperative, 2) the spot market trader, and 3) exporters via the Ethiopia Commodity Exchange (ECX). Currently most farmers sell to a spot market trader, while the remaining group of farmers sells to a cooperative. Small-scale farmers do not sell via the ECX. We shall explain this below.

Cooperatives have not been existent for a while since the fall of the DERG regime in 1991. At the time of the DERG regime cooperatives were seen as instruments of the regime – in which farmers were forced to become member and meet certain production quota – because of which there has been a taboo concerning cooperative membership. In 1997 the first new cooperatives started to emerge.
Membership bases are growing gradually, and the taboo is slowly disappearing, mostly due to increased recognition of the potential of collective action. According to law, cooperatives are organized at three levels: the region, the county, and the village. Ethiopia consists of 9 so-called ‘regions’ and two federal cities. Each of the nine regions is divided in counties called ‘woredas’. Woredas consist of villages called ‘kebeles’ or towns consisting of different ‘kebeles’. At kebele-level farmers are supposed to organize in so-called primary cooperatives. The primary cooperatives at kebele-level are supposed to unite in a union at the level of the woreda. The major role of the union in this model, or the second-level cooperative, is to sell the farmers’ produce in large quantities, for example by means of exporting. The idea is that at the level of the union required exporting capabilities can be developed and exploited such as language skills, legal skills, quality control, and quantity accumulation. In some cases, such as in Tigray, there is even a third-level cooperative called a federation. A federation operates at the level of one of the 9 regions. Its distinctive functions are unclear as it assumes similar roles as the union, albeit with a more diverse range of products and a larger scale. Primary cooperatives are by law allowed to export (supposed that they have the required resources), to sell to the union, or to sell to exporters via the ECX. The union can similarly export, sell to the federation, or via the ECX to exporting firms.

Law prescribes that any group of farmers can start a cooperative in a kebele as long as the purpose of the cooperative differs from existing cooperatives. Members of a cooperative can determine the share price of the cooperative, though cooperatives should exist of at least 10 members and no member is allowed to have more than 10% of the shares. The law furthermore states that of the profit made 30% has to be put in a “reserve fund” (although it is unclear what a reserve fund is), while 70% has to be distributed to members in the form of dividend. One member has one vote. Members can elect a leader for a period of three years which can be extended by one more period of three years. Only citizens of the village in which the cooperative is located are allowed to become member, although in case of shortage of money a cooperative may accept members from another village.

Individual farmers can become member of a primary cooperative. A majority of farmers, however, chooses to sell their produce to spot market traders, for reasons that will become clear below. Spot market traders bulk the produce of farmers and sell the sesame at large quantities via the ECX. Currently small-scale farmers are not selling directly via the ECX. The ECX is an auction hall through which buyers and sellers of sesame can agree on a price. Small-scale

Please note that translations of Ethiopian terms may differ from other documents. Ethiopia has its own scripture and characters and there is not yet one standard for translation resulting in slightly different ways of spelling in documents using the alphabet.
farmers are not selling via the ECX for two major reasons. Firstly, to sell via the ECX a license is required. There is a limited number of licenses because of which the price of a license is too expensive for individual small-scale farmers. Secondly, to sell via the ECX a minimum of 50 quintals\(^3\) has to be delivered. Small-scale farmers are not capable of delivering such quantities individually.

Almost all sesame in Ethiopia is exported as raw, unprocessed sesame. Exporting firms are by law obliged to buy their sesame via the ECX. There are two exceptions to this rule. Firstly, when cooperatives (at any of the three levels) export the produce, they can bypass the ECX. The underlying logic is that otherwise they would buy to and sell from themselves via the ECX which is of no use. Secondly when exporting firms assume processing activities they are allowed to engage in contract farming schemes with primary cooperatives.

**Direct informal institutions**

In addition to institutions that are directly targeting sesame production and trade and are formally written down and enforced, there is a set of institutions that similarly directly targets sesame production and trade, but are not formally codified. Remarkably it is mostly government staff that ignores the formal institutions and intervenes to enforce informal ones. The government does so because it fears that without intervening the formal institutions cause farmers to be excluded from market participation and cooperative membership. Much of the staff (though not all of them) envisions a market in which every farmer can participate, preferably in one collective. The idea is that all-inclusiveness (including all farmers in one cooperative) will benefit the farmers. Based on these solidarity principles – which are often observed in developing countries when policy makers need to consider the position of the most vulnerable and poor farmers (World Bank 2007) – staff from both federal and regional governments enforce certain institutions. A first institutions is that, though formally allowed, government staff does not permit farmers to establish more than one cooperative per village. Government staff circumvents this law by interfering in the formation of cooperatives and ensuring that only so-called ‘multi-purpose cooperatives’ are formed with the effect that no other cooperative with a unique purpose can be formed anymore. The government furthermore prevents direct export by primary cooperatives, even when they have capabilities to do so. This requires a union for farmers to benefit from selling at export margins. However, staff from the regional government of Tigray set up a federation, a third-level cooperative, and used its political powers to ensure that primary cooperatives supplied sesame to the federation rather than to the union. It did so by engaging in long and repetitive meetings with leaders of cooperatives and by enforcing a new regulation that allowed primary cooperatives only to sell to the union if they

\(^3\) The local measuring standard of 1 quintal is 100 kilogram
were able to proof the descent of their members. The latter is close to impossible in a region with such weak administration and so much illiteracy as in Kafta-Humera. The meetings functioned furthermore to ‘convince’ the leaders of cooperatives to buy fertilizer from the state-owned monopolist. Cooperatives are also convinced to keep the share price low in order for the cooperative to remain accessible to new members and to provide benefits to the wider community, including non-members. Leaders are supposed to receive a salary for every day worked independent of how much profit a cooperative makes. Staff of the regional cooperative agency (RCA) of Tigray explained that these meetings are “a type of democratic approach: farmers cannot be forced to do things, but should be convinced. You cannot simply impose cooperatives and members to do something, but they need to be convinced of what they need to do by giving understanding.” They furthermore explained that because Ethiopia is a developing country the government functions to explain to leaders of cooperatives what the best thing is to do.

At the level of the individual farmer there are institutions regulating the provision of loans by spot market traders to farmers. Farmers engage in high pre-selling costs due to the need to rent a tractor for plowing, hire laborers for weeding and harvesting, buying bags for sesame, and other costs. Cooperatives often cannot provide such loans due to free riding of members in the past. As a consequence of free riding by members, cooperatives were defaulting on their loans provided by banks and government who are therefore currently unwilling to provide loans to the cooperatives. Access to loans from spot market traders is therefore highly attractive to farmers.

*Indirect formal institutions*

The number of indirect institutions relevant to sesame trade is smaller than the institutions mentioned so far. A first one concerns access to land, whether or not used for farming. All land is State-owned, but land can be leased from the State. Where most civilians can apply for the lease of two hectares, certain former fighters as a kind of retirement scheme received 10 hectares of land and 5,000 Ethiopian Birr (ETB) after the war. Some former fighters use this advantage to invest in sesame farming. A kind of opposite effects occurs due to inheritance laws. While land can only be leased for a certain period of time, entitlements to land use can be inherited by children. A problem, however, is that when a farmer has two hectares and a number of children, the resulting divided plots of land quickly become too small to make investments for cash crops in addition to food crops used for home consumption. A final formal, though indirect, institution concerns neighboring country Eritrea – which used to be part of Ethiopia – being an official enemy with which Ethiopia is still at war (though there is hardly any fighting). Kafta-Humera borders Eritrea. Farmers are constrained by the war because it prevents cross-border trade.
Indirect informal institutions

Finally, concerning indirect informal institutions, perceived gender roles still determine leadership of cooperatives. People in rural Ethiopia do not accept female authority or leadership by a young person. This means that leaders are not elected based on competencies, but on gender and age instead. Though institutions on authority are not directly designed to address markets or firms, they do affect markets as well. Religion plays furthermore an important role. In Kafta-Humera people differ in their religious expressions (although close to everyone is member of the Ethiopian orthodox church), but recurrently farmers responded in interviews that only God can provide good harvests and that there is not much they can do themselves. This answer was also repeated when querying about opportunities for irrigation, use of chemicals, and farmer organization. In other words, religious institutions prescribe that God is controlling everything and that there is little that man can do to be successful. Finally, throughout the country soldiers that participated in liberating the country from the former regime enjoy much respect and status. This status is sometimes accompanied with certain privileges former fighters or the current military force enjoy. These privileges may also affect markets.

The institutional environment

The picture below summarizes the institutional environment discussed above.

<table>
<thead>
<tr>
<th>Direct institutions</th>
<th>Informal institutions</th>
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<tbody>
<tr>
<td>ECX</td>
<td>All-inclusiveness</td>
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<tr>
<td>Trade regulations</td>
<td>Federation</td>
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<tr>
<td>Cooperative formation</td>
<td>Loans spot market traders</td>
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<td>Cooperative governance</td>
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<tr>
<td>Retirement scheme soldiers</td>
<td>Gender roles</td>
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<tr>
<td>Inheritance law</td>
<td>Religious beliefs</td>
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<tr>
<td>State of war</td>
<td>Status of (former) soldiers</td>
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Figure 2 - The Institutional Fabric of Ethiopia

Tensions and behavior:

Of particular interest in using the framework we suggest are the resulting tensions and behavior. After all, it are the tensions and behavior that can make the institutional environment a swamp. We will summarize a number of tensions and how different cooperatives responded to these tensions. We will start with the cooperative ‘Adebay’. This cooperative represents the majority of cooperatives which clearly struggle not to drown. We continue with three other cooperatives:
Humera 1, Humera 2, and Maikadra. These cooperatives each found ways to play the institutional environment in such a way that it improved their performance.

**Tensions**

Most tensions in the case of sesame seed cooperatives in Ethiopia come from conflicting direct formal and direct informal institutions. Where formally each group of at least ten farmers is allowed to start a cooperative, this is prevented through informal institutions that prescribe that farmers interested in collective action can only become member of the one cooperative per village. Similarly leaders of cooperatives are formally allowed to determine the share price, but are pressured through informal institutions to keep the share price as low as 50 ETB (approximately 3 US Dollars), such that the cooperative remains accessible to everyone. Cooperatives are furthermore formally allowed to determine how to reimburse the leaders and staff of the cooperative, but according to informal institutions the most preferred reimbursement is the ‘per diem’ salary in which leaders are paid for each day they have worked. In addition cooperatives formally can choose to sell to different buyers (ECX, union, importer, spot market trader), but are informally pressured to sell to the federation. Other solidarity principles prescribe the cooperative to bring benefits to the community and not just to its members only. In other words, the cooperative is expected to consider the goods it creates more as public goods than as club goods. Cultural, informal indirect institutions furthermore prescribe that authority is a masculine role for senior people. These tensions confront farmers and leaders with choices to make:

1. Do we start our own cooperative with people whom we trust, have similar ambitions, and complementary resources or do we become member of an existing cooperative?
2. Do we increase the share price such that it closely resembles the organization’s value or do we keep it as low as 50 ETB such that the organization remains accessible?
3. Will we pay leaders per day and create an incentive to sit in office as much as possible or will we create incentives for the leaders to pursue profits?
4. Will we sell to the federation, or will we sell to the most profitable buyer?
5. Will we create club goods or public goods?
6. Will we elect leaders based on seniority and gender or based on competencies?

Most cooperatives behaved similarly to the cooperative Adebay, and were drowning or almost drowning in the swamp. Three others were acting differently and turning their behavior into success.

**Adebay**

The cooperative Adebay is almost drowning in the swamp. Concerning the
tensions above it often chose for institutions prescribing non-entrepreneurial behavior. The share price was kept low despite the organization’s investments in a warehouse, office, and tractor, among other things (tension 2). Leaders were paid per day, and sitting in office as much as possible (tension 3). Leaders had little incentives to increase profits since this would not affect their salaries. The cooperative sold its supply to the federation (tension 4), made its assets (such as the tractor) available on a first-come-first-served basis (tension 5), and elected leaders based on seniority and gender (tension 6).

The resulting problems causing the cooperative to nearly drown were various. It starts with a leader which is not elected because of his competencies. The incompetent leader hardly enjoyed education and has little understanding of managing businesses. This makes him very susceptible to ‘advice’ from the RCA. We observed much dissatisfaction concerning the cooperative among both members and non-members. Members were about to lose their patience after not having received dividend for four to five consecutive years. Without dividend, there is no price difference between what the cooperative pays to farmers and what spot market traders pay, but more importantly members started losing their trust in the organization. They did not know what was done with the profits of the organization. The cooperative also did not have an accountant and was not transparent at all concerning revenues and costs. The leaders argued that the money was kept in the safe and that they were hoping for a government accountant to come (which had not come for over four years), but nobody knew exactly how much money was in the safe. Given incidences of fraud and theft in the past in other villages, leaders are not easily trusted.

Aside from the lack of trust and incompetence of the leader, the cooperative could not trade in much sesame. The reason was that they were selling to the federation. The federation got into large financial problems and it took about four months before cooperatives received the money. In the meantime, cooperatives did not have money to finance other transactions. Cooperatives are not considered trustworthy lenders by banks and government, so borrowing money is not an option. The cash flow problems resulting from selling to the federation limited the amount of sesame the cooperative could trade in. The cooperative furthermore allowed new farmers to become member of the cooperative for only 50 ETB. Though willingness to become member was low among non-members, the regulations more importantly resulted in little willingness to invest among existing members. In the past the cooperative used profits made on buying and selling sesame from its members partially to buy assets. Non-members have equal access to these assets as members. Members are not even given priority in the use of the assets (such as the warehouse or the tractor), even though they forfeited the dividend the cooperative would have been able to pay had it not invested in these assets. Moreover, new members can become co-owner of the
assets for only 50 ETB. In the last interview the leader said it would increase the share price to 100 ETB, but even if this is done, the share price would not reflect the value of the assets properly. It would neither change the policy to serve not only members, but non-members as well.

**Humera 1**

That it is possible to play the institutional environment differently than Adebay and all the cooperatives it represents, is illustrated by three other cooperatives, of which the first one is Humera 1. Humera 1 has an educated leader. This is interesting since the leader determines much of the cooperative’s behavior. The cooperative is fortunate to have a senior male leader who is competent (tension 6). Most older people in the region are not well educated. This is mostly the consequence of various wars that made people fight or flee to Sudan. It is interesting to study what a competent leader can mean for an organization.

The leader of Humera 1 understood that for the cooperative to succeed it is vital to create trust among the members and willingness to invest. He therefore employed a certified accountant and created transparency by communicating clearly all the money streams. He furthermore decided not to have a per diem salary, but a commission based salary with which he would receive 2% of the profits made as reimbursement. As such he created an incentive to make as much profit as possible (tension 3). To make as much profit as possible he wanted to engage in continuous acts of buying sesame from members and selling, such that the limited cash available at the organization would continuously be in motion. This ambition was, however, partially frustrated when he did not get paid quickly for the sesame he had sold to the federation. This delayed payment made him threaten the federation to start a law suit. The threat alone was sufficient for the federation to pay him quickly. The reason is that Humera 1 is one of the few cooperatives with an ECX license. The federation is a project originating from the regional government, while the ECX is one originating from the federal government. The federal government has high stakes in making the ECX succeed and prefers cooperatives to sell via the ECX rather than to the federation. The federation feared its chances of success in a law suit at federal level. For a cooperative selling via the ECX is interesting because buyers deposit money at the ECX prior to bidding and therefore sellers receive the money guaranteed within two days after sales (tension 4).

The leader of Humera 1 furthermore increased the share price to 400 ETB such that the share price would more closely reflect the organization’s value (tension 2). From the data we learn that members are highly positive about the organization, new farmers were joining, and revenues and profits have been increasing for a number of years. In addition it paid dividends to its members.
We must stress that the actions taken by the leader of the cooperative are not simply choices. The pressures to do otherwise are high. Staff of the RCA, for example, told us in an interview that they did not like this commission-based salary and high share prices, and that they would take steps to inform the cooperative that these practices are not desirable. We do not know what steps the RCA effectively took, but up to the last interview the leader was sticking to his commission-based salary and share price. The pressures of the RCA, however, do make up the tension and make it less obvious for a leader what kind of reimbursement scheme to choose.

Maikadra
The third cooperative, Maikadra, is not drowning in the swamp, most importantly due to the acts of agency of a sesame seed processing firm. Maikadra was not so much different from Adebay, except that it had an accountant (although it was not a certified accountant with a diploma). Maikadra was therefore also running the risk of drowning. There was, however, a processing firm interested in buying sesame directly from the cooperative (tension 4). The processing firm is organic certified and needs produce from farmers which are equally so certified. However, at the ECX there is no grade or standard for organic produce. Sesame is bulked based on other criteria, making it impossible to buy organic produce via the ECX. The processing firm lobbied for over a year in order to be permitted to source sesame directly from Maikadra. Again two years later the law changed and allowed any processing firm to source directly from cooperatives, thereby bypassing the ECX. The government changed the law because it considered the importance for the country that more value-adding activities take place within its borders. The benefit for Maikadra is that in addition to a new sales outlet, it also gained access to organic fertilizer that the state-owned monopolist could not provide and the processing firm provides loans to the cooperative.

The challenge for Maikadra is currently to remain supplier of the processing firm. They do make investments in warehouses and trucks, and only organic certified members can make use of it (tension 5), but the share price is still kept low despite the investments (tension 2). The access to loans (sesame farming requires high pre-selling costs), and organic fertilizer may be sufficient reason for members to participate actively in the cooperative and new members to join, but more potential can be realized if, for example, the share price is increased, a certified accountant is employed, and leaders receive a performance-dependent reimbursement.

Humera 2
The name of this cooperative, Humera 2, already hints at a first tension that is challenged by its founders / members. Humera is the name of a village. According
to informal institutions only one cooperative per village is permitted, even though formally many more are allowed. The founders of Humera 2 found a way to play tension 1 and started their own cooperative with their own governance style, refusing new members, but enjoying high profits.

Humera 2 is an organization quite distinct from all the other cooperatives because it was not institutionalized according to the same blueprint as other cooperatives. When data collection approached the end, Humera 2 even changed its legal status from cooperative to a limited liability company. Humera 2 was founded in the year 2002 after the last war that Ethiopia fought with Eritrea. As mentioned before, Kafta-Humera is located in Tigray and on the border with Eritrea, the region where severe fights took place. In 1991 different “liberation groups”, including the Tigray People's Liberation Front (TPLF), defeated the DERG regime. The TPLF was seen as the great victor and since the parliament established in 1994 this front is still the most dominant group in the ruling party. During the latest ‘elections’ the party won 498 out of 500 seats. Humera 2 was founded by 18 former fighters for the TPLF. They met each other during a TPLF meeting and decided to start a cooperative. The cooperative engaged in all kinds of activities including sesame farming and trade. Humera 2 formulated clear governance regulations. Its starting share price was 3,000 ETB (tension 2), which is much higher than the conventional 50 ETB that other cooperatives charge. The 3,000 ETB was paid from a 5,000 ETB reward that fighters received after the Ethiopian-Eritrean border war in 2000. The members formulated strict agreements concerning commitment and tasks were distributed according to competencies. Profits would be invested immediately in new business activities and salaries would be equal for all members. If a member does not participate actively he is sanctioned by means of not receiving a salary. No new members are allowed unless they know the potential member well and trust this member (tension 5). Recently they set the share price to 50,000 ETB. One member left the cooperative shortly before our last interview in May 2013 and hence the organization currently consists of 17 members.

**Summary**

Above we discussed six different tensions. The tensions confront the leaders of the cooperatives with choices to make. These choices affect their success. Most cooperatives, as represented by Adebay, are having large problems to survive. In other words, they are almost drowning in the swamp. Humera 1, Maikadra, and Humera 2 found ways to play the institutional environment and turn the tensions into opportunities to gain advantages. They used different mechanisms to do so. For the sesame seed cooperatives in our study most tensions resulted from contradicting and conflicting direct formal and direct informal institutions. However, resulting tensions may vary over time and place.
4.5 Discussion and conclusion

No societal sphere, including a market, is an institutional void – even when no formal institutions directly seek to regulate actors’ behavior in one sphere, informal institutions and formal institutions from another sphere will (Rawls 1955). Rather than an institutional void, a plethora of possibly conflicting institutions, creating what we call here an “institutional swamp” can hamper entrepreneurs. Institutional fabrics are complex we argue, and show that tensions that confront entrepreneurs arise. Attributing a lack of entrepreneurial behavior to the absence of direct formal institutions (or their enforcement), to ‘voids’, may be misleading. Voids ignore the “on the ground dynamics” (Mair et al. 2012: 819), and the interactions between institutions. We propose a framework to understand these dynamics, allowing for a better sense of what affects entrepreneurs.

In remote, barren Humera where few formal institutions exist in direct support of entrepreneurship and market exchange, informal institutions and formal institutions from other spheres impinge. From such other spheres, an important example is the principle of solidarity that conditions the market. A consequence is that each municipality is officiously only permitted to have one cooperative. In addition, partly informally, no farmer can be excluded from a collective, despite obvious free-riding problems that will result (cf. World Bank 2007).

When some institutions – formal or informal, directly aimed at a sphere or not – prescribe one kind of behavior, and other institutions prescribe different, conflicting behaviors, ambiguity and tensions arise. Some actors are able to play the environment and act more entrepreneurially, while others are paralyzed and risk ‘drowning in the institutional swamp.’ Institutional entrepreneurs make choices that avoid the tensions that arise from conflicting institutional prescriptions for behavior. Institutional contexts do allow for agency (Dolfsma and Verburg 2008). Institutional entrepreneurs do not simply ignore institutions that prevent them from adopting preferred behaviors in pursuit of their goals. Rather, they can reach their goals by adopting behaviors that are, for instance, ostensibly in line with institutions that could be seen to hamper reaching a goal. Humera 1, for instance, is strongly focused on market transactions and the pursuit of profits, in apparent contrast with principles of solidarity, but can do so as it also invests in the community. In addition, it can resist regional government pressures to supply the federation by drawing on its cognitive and financial resources as it threatens legal actions. These are actions that cannot be construed as illegitimate, but only when properly played. Actors to play this should have resources, but should also be seen as legitimate themselves (cf. Oliver 1991). Members of Humera 2 have a strong reputation having served for a long time as officers in the army against the former DERG regime. If the leader
of a cooperative is chosen because of seniority, rather than merit, however, chances that he can effectively act as institutional entrepreneur avoiding an institutional swamp may be lower.

The room to play the institutional environment, but also the difficulty for some to do so, has hardly been recognized in studies on institutional environments and entrepreneurship in developing countries. Recognizing this room is of importance to current literature as it maps the space in which (institutional) entrepreneurs can maneuver, avoid drowning in an institutional swamp, and be successful. Humera 1, Humera 2, and Maikadra mostly adhered to market institutions, each in their own way, while the other cooperatives, represented by Adebay, mostly adhered to institutions far less friendly to market exchange. As a consequence, the prime goal to have a cooperative in the first place, from a market point of view – seeking scale economies to better position in the market – cannot be reached.

An institutional fabric affects entrepreneurial behavior. In order for researchers, actors and policy makers to understand this, a societal sphere must not be perceived as an institutional void if some formal institutions are absent. The framework we propose allows one to understand the ‘on the ground dynamics’ in a sphere in society. Informal institutions and formal institutions, direct, or indirect, can prescribe behaviors. The behaviors prescribed can conflict, causing tensions in a sphere, and giving rise to what we call an institutional swamp. Institutional entrepreneurs, skilled and possessing legitimate resources that they employ in a way that is seen as legitimate, can resolve some of the conflicts and indicate worthwhile solutions for further economic development. Successful cooperatives that play the institutional environment can become inspiring benchmarks for others and fuel future development.

In conclusion we argue that not only unrealized potential of entrepreneurial activity in developing countries can be attributed to institutional environments, but so can realized potential. The crux is not just to study what is absent, the voids, but more so what is present. The richness of societies institutional fabrics explains to a greater extent entrepreneurial activity than do so-called voids. Mair et al. (2012) already made this argument, but to date no framework for studying institutional fabrics has been developed or used in literature. We argue that the framework that we propose in the current chapter, as well as the conceptualization of the institutional swamp, increases the rigor of studies on institutional environments and entrepreneurial activity in developing countries.

**Managerial and policy implications**
Perceiving of a societal sphere as an institutional void in case there are no or few formal institutions that directly prescribe behaviors in it, as much of current
literature does, naively ignores the fact that informal institutions as well as formal institutions that are primarily focused on a different sphere do impinge on it too (cf. North 1990). Ignoring that will give rise to the naive policy suggestion to import formal institutions that elsewhere regulate such a sphere. To include women as active participants on a market in a culture where this is not the informal norm (Mair et al. 2012) may not work even in the longer term - informal institutions to prevent women entering the market sphere may not change overnight (Williamson 2000; North 1990). For policy makers an important implication is to find the balance in institutional fabrics that satisfies the principles that a society values yet reduces ambiguity. In other words, institutions targeting the practice of market exchange need to be aligned with institutions targeting other values, preferably in such a way that society’s values are hardly compromised. Furthermore the importance of legitimacy is important to recognize. Top-down designed and installed institutions may not bear legitimacy in society and evoke acts of defiance, avoidance, resistance or other acts of agency (see Oliver 1991).

For managers an important implication from our study is to detect the room for maneuvering, the room existent in institutional fabrics to play the environment. Particularly in the context of ambiguity varied acts of behavior may be possible. If a firm requires more room for maneuvering, as did the processing firm above, an important strategy is to lobby for more such room. In other words, institutional entrepreneurship can be a source of competitive advantage in such settings. Similarly, NGOs supporting firms in developing countries can benefit from recognizing the complexities of institutional fabrics, and to understand room existent to exploit tensions in the benefit of supported firms. We suggest firms and NGOs not just to focus on what is absent, on voids, but more so on tensions and how they can serve the interest of entrepreneurs.