

# 1 **Markets and institutional swamps:** 2 **tensions confronting entrepreneurs in** 3 **developing countries**

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10 **Abstract.** Unrealized potential of entrepreneurial activities in developing countries  
11 has often been attributed to missing formal market-based institutions. In new  
12 institutional economics, the concept of ‘voids’ is suggested to describe the absence  
13 of market-based institutions. In reality, however, ‘institutional fabrics’ are always  
14 and necessarily complex and rich in institutions. No societal sphere is  
15 institutionally void. In this article, we contribute to existing literature on  
16 entrepreneurship and institutional economics by presenting a framework for  
17 studying the richness and complexities of institutional fabrics, as well as ways in  
18 which entrepreneurs respond to institutions. Distinguishing four types of  
19 institutions relevant for entrepreneurs, we analyze case study data from Ethiopia,  
20 and discuss how ‘tensions’ between potentially incompatible institutions result in  
21 behavioral frictions. Some entrepreneurs play the complex institutional  
22 environment and benefit from the tensions in it, whereas others may drown into  
23 the institutional ‘swamp’ they face. Policy makers should acknowledge that  
24 institutions not only result from formal policy making and that in many cases a  
25 diverse set of institutions is needed to facilitate market exchange and solve  
26 constraining tensions. The diversity that results from initiatives of institutional  
27 entrepreneurs may create a more effective institutional environment for  
28 development.

## 29 **1. Introduction**

30 Entrepreneurs are catalysts of economic development (Mair *et al.*, 2012; Seelos  
31 and Mair, 2007), but, in developing countries in particular, their potential is

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32 not realized (Sutter *et al.*, 2013). This stunted contribution of entrepreneurs to  
 33 economic development is attributed by many to a weak institutional environment  
 34 (Khanna and Palepu, 1997; 2000; Lee and Kim, 2009; Mair and Marti, 2009;  
 35 Sutter *et al.*, 2013). Institutions prescribing certain behaviors and dissuading  
 36 other behavior (Neale, 1987) allow markets to function and firms to at least  
 37 survive, if not to enjoy some measure of success (North, 1990; 1991). When  
 38 institutions are absent, markets can be dysfunctional and many firms face a  
 39 situation too uncertain to be successful. Small scale and entrepreneurial firms  
 40 are particularly vulnerable in a weak institutional environment. McKague *et al.*  
 41 (2016) discussed how in these environments an NGO may help to build the  
 42 social structure of a viable new market. In this contribution, we focus on young  
 43 existing markets in a context of institutional plurality and tensions (Mair *et al.*,  
 44 2015; Oliver, 1991; for a general argument, see Dolfsma and Verburg, 2008).

45 Weakness of institutional environments is defined from a New Institutional  
 46 Economics (NIE) point of view as a dearth of formal, market-based institutions  
 47 (or their enforcement) (cf. North, 1990). Examples include weak (absent)  
 48 contract law and property rights law. Whenever such institutions are not  
 49 present, it is believed that markets operate in a void. Khanna and Palepu (1997)  
 50 introduced the concept of institutional *voids* to describe such situations. The  
 51 term ‘institutional void’ suggests emptiness, a vacuum that can relatively easily be  
 52 filled (Mair *et al.*, 2012). Adding formal, market-based institutions, ready-made  
 53 from other jurisdictions, is then expected to stimulate economic development by  
 54 supporting entrepreneurs.

55 In reality, however, as Original Institutional Economics (OIE) recognizes  
 56 (Bush, 1987; Neale, 1987), neither entrepreneurs nor other actors in any practice  
 57 in society<sup>1</sup> face institutional voids, even for activities where no formal market-  
 58 based institutions exist in a country (jurisdiction). Instead, a rich and complex  
 59 fabric of other, informal and non-market-based institutions affects them (cf.  
 60 Mair *et al.*, 2012). Informal institutions, or formal institutions that aim to  
 61 regulate adjacent, non-market activities, will impinge on a practice for which  
 62 no or a few formal institutions exist. Formal institutions regulating other  
 63 practices may indirectly affect a focal practice, and informal institutions may  
 64 directly or indirectly affect a focal practice as well. Any institutional fabric  
 65 thus is rich and complex even when some formal institutions are lacking:  
 66 no sphere is institutionally void. As institutions are developed or emerge to  
 67 impinge on a different practice than intended, these may clash with others to  
 68 produce tensions in a practice (Dolfsma and Verburg, 2008). A tension arises  
 69 when different institutions impinge on the same focal practice yet prescribing  
 70 behaviors that are inconsistent or even in conflict with each other. Tensions

1 A practice is ‘. . . any form of activity specified by a system of rules [institutions] which defines offices, roles, moves, penalties, defences, and so on, and which gives activity its structure’ (Rawls, 1955: 3).

71 arise even when different formal institutions directly relevant for a focal practice  
72 prescribe different behaviors. An institutional fabric – the totality of institutions  
73 that actors face who are in a practice – that regulates a focal practice can be  
74 riddled with institutions that prescribe such diverse behaviors that the actors  
75 in it find themselves caught in what we call an *institutional swamp*, unable to  
76 act or constrained in developing behaviors they would otherwise prefer. Actors  
77 caught in an institutional swamp are likely to be less successful economically, for  
78 instance since they are vulnerable to unexpected enforcement actions. However,  
79 the swamp can also be seen as a challenge, to some actors, as it may give room  
80 for institutional entrepreneurship that changes the institutional fabric and forms  
81 the root for successful entrepreneurial activity.

82 Although previous research on institutions – especially in economics and  
83 political science – focuses on formal institutions, such an emphasis tends to  
84 ignore informal institutions, formal institutions primarily intended for other  
85 practices, as well as the possibility for all these institutions to interact with  
86 each other (Rakner and Randall, 2011: 60). We argue that the outcomes of  
87 institutional arrangements can only be understood when taking into account the  
88 dynamics of interaction between institutions, markets, and organizations (Djelic  
89 *et al.*, 2005). Interactions between institutions may cause tensions perceived by  
90 actors in a focal practice. In this paper, we provide an analytical framework to  
91 understand the ‘on-the-ground dynamics’ and complexities (Mair *et al.*, 2012:  
92 819) in an institutional fabric that is not characterized by voids but by a possible  
93 institutional swamp. Analyzing all the different institutions impinging on a  
94 particular practice – entrepreneurial behavior in a well-defined and recognizable  
95 market setting – allows us to identify tensions resulting from contradicting  
96 prescriptions for behavior from diverse institutions, as well as heterogeneous  
97 responses to tensions. What opportunities and difficulties entrepreneurs face,  
98 what choices they make, and what chances of success they have is best understood  
99 when realizing that institutional spheres are always filled rather than void, but  
100 that behaviors prescribed can be in conflict.

101 We do so by presenting and analyzing empirical data on farmer  
102 organizations [cooperatives] in a developing country [Ethiopia], as here  
103 entrepreneurs are confronted with different types of institutions prescribing  
104 conflicting or contradicting behaviors. We submit that any practice, even  
105 the entrepreneurial activities of smallholders producing a highly homogenous  
106 agricultural commodity such as sesame seed in Humera, Ethiopia – a remote,  
107 barren corner of Africa – will have institutions that regulate the behavior of actors  
108 in it. We argue that this is an interesting setting for understanding an institutional  
109 swamp and the behavior of actors. The major reason for this is that the sesame  
110 market in Ethiopia is quite young and booming in the last decade. As in many  
111 developing and emerging markets, the institutional fabric that governs decisions  
112 of the actors involved is changing quickly and, therefore, provides an interesting  
113 context for our analysis. The case studies show that if the concept of institutional

114 voids is adopted the on-the-ground-dynamics are insufficiently understood as  
 115 too much attention is paid to missing formal market-based institutions, while  
 116 the importance of tensions between these institutions and informal and indirect  
 117 institutions is ignored. This also leads to the neglect of the role of individual actors  
 118 and collective action to accommodate tensions between institutions. Sesame  
 119 farmers in Ethiopia are much more diverse in terms of the resources they have  
 120 at their disposal, approaches to farming and performance than one might expect  
 121 (Olthaar, 2015). We find that both entrepreneurial failures and successes can  
 122 better be understood and explained when studying the richness and complexities  
 123 of the institutional environment of entrepreneurs, using the framework that we  
 124 propose, than by means of studying only what the ‘voids’ are.

125 We proceed by first discussing relevant literature in Section 2, suggesting a  
 126 conceptual framework. Section 3 elaborates on method and data, which are  
 127 analyzed in terms of the framework presented in Section 4. We discuss our  
 128 findings and provide conclusions in Section 5.

## 129 2. Literature

130 Institutions are society’s devised rules, norms, values, or agreements that  
 131 constrain certain behaviors in order to stimulate others (North, 1990; 1991).  
 132 Alternatively, and more comprehensively, Hodgson (2006) defines institutions as  
 133 systems of established and prevalent social rules that structure social interaction.  
 134 Institutions give stability and predictability to the behaviors of individuals in  
 135 a particular practice (Neale, 1987), but are also indispensable to understand  
 136 change (Dolfsma and Verburg, 2008; Dolfsma *et al.*, 2011). A social practice, at  
 137 any aggregation level, country, industry, market, or organization, will be affected  
 138 by a number of different institutions (Mair and Marti, 2009; North, 1990; Stein,  
 139 1994; 1991; Sutter *et al.*, 2013).

140 Some claim that a lack of economic development and entrepreneurial failure  
 141 is due to missing formal institutions, creating an institutional void (Castellacci,  
 142 2015; Khanna and Palepu, 1997; 2000; Mair and Marti, 2009). In reality,  
 143 however, institutional fabrics are complex and rich in character, even when  
 144 (some) formal institutions that regulate a practice elsewhere are lacking in a  
 145 country under study. Not recognizing this deprives one of an explanation of  
 146 complexities and ‘on-the-ground dynamics’ (Mair *et al.*, 2012: 819) in a practice.  
 147 What expectations of success players in a market have depends on the institutions  
 148 they are facing.

### 149 *The institutional fabric (facing entrepreneurs): four types of institutions*

150 To analyze the institutions entrepreneurs are confronted with, and moreover  
 151 competition between contradicting or conflicting institutions, we propose to  
 152 distinguish between four types of (interrelated) institutions. Conceptually, our  
 153 framework is aligned to Helmke and Levitsky’s (2006) notion of competing

154 or conflicting institutions, i.e., interactions between institutions that may cause  
155 dysfunctionality. In order to study such interrelations, it is beneficial to first  
156 identify the relevant institutional dimensions that allow identification of fabrics  
157 of interrelated institutions in which, as we argue below, a swamp can develop.

158 The first dimension that is relevant in our context is the differentiation between  
159 formal and informal institutions (Casson *et al.*, 2010; Steer and Sen, 2010).  
160 Formal institutions comprise societies' 'constitutions, laws, [and] property rights'  
161 (North, 1991: 97). Formal institutions are codified, written down, and enforced  
162 by State bodies. Within countries formal institutions generally apply in the  
163 whole country and are equal for all the citizens. Informal institutions concern  
164 societies' 'sanctions, taboos, customs, traditions, codes of conduct', (North,  
165 1991: 97) and 'religious beliefs' (Mair *et al.*, 2012: 820). Informal institutions  
166 may differ between countries, groups, and even individual actors. Informal and  
167 formal institutions can have a variety of interrelations enhancing effectiveness  
168 (e.g., formal and informal institutions being complements and increasing their  
169 joint effectiveness, or informal institutions substituting non-functional formal  
170 institutions) or the opposite (e.g., formal and informal institutions competing  
171 with each other or being in an accommodating interrelationship) (cf. Helmke and  
172 Levitsky, 2004). That formal institutions do have an impact on entrepreneurship  
173 is realized widely among scholars, but informal institutions can also have a  
174 significant impact on the commercial chance of entrepreneurs (Dolfsma and De  
175 Lanoy, 2016).

176 Next to this differentiation, we argue that a second dimension is of crucial  
177 importance to understand the context in which institutional swamps may emerge,  
178 since competing and contradicting institutions may not only occur between  
179 formal and informal institutions but also among formal and among informal  
180 institutions themselves. In addition, while markets are a universal institution  
181 of exchange, institutions regulating behaviors of actors in markets are not  
182 only based on general grounds of market exchange (Rawls, 1995). Market  
183 exchange is embedded in a wider space of social exchange (Dolfsma *et al.*, 2005).  
184 Market exchange also depends on institutions that do not *primarily* address  
185 market exchange, or are not intended or believed to do so. In other words,  
186 there are institutions directly targeting the practice of market exchange, while  
187 other institutions target other practices that may indirectly still affect markets.  
188 Therefore, we distinguish between institutions – formal as well as informal –  
189 that *directly* target the market and those that influence behaviors and outcomes  
190 *indirectly*. Direct institutions are best described with existing definitions of  
191 economic institutions 'that define the production, allocation, and distribution  
192 process of goods and services, (Jütting, 2003: 14), comprising property rights,  
193 market mechanisms, contracts, money, and technology. Indirect institutions are  
194 those that do not primarily aim to influence production and allocation – but  
195 may indirectly do so (Rawls, 1955). Such indirect institutions are closest to the  
196 concept of nonmarket forces comprising 'social, political and legal arrangements

**Figure 1.** Institutional fabric facing entrepreneurs.

	Direct Effect	Indirect Effect
Formal Institutions	Contract laws Property rights Supporting apparatuses Etc...	Marriage law Inheritance law Environmental regulations Etc...
Informal Institutions	Status as entrepreneur Interest payment Preferred business partner Etc...	Group culture Group roles Cultural beliefs Etc...

197 that structure [...] interactions outside of, and in conjunction with, markets'  
198 (Baron, 1995: 48).

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

- 200 (1) Direct formal institutions;  
201 (2) Direct informal institutions;  
202 (3) Indirect formal institutions;  
203 (4) Indirect informal institutions.

204 To make the abstract logic above more clear, consider the examples below  
205 that we derived from literature. First, concerning direct formal institutions,  
206 the abovementioned contract-law enforcement, protection of property rights,  
207 as well as established capital markets, and other supporting apparatuses serve  
208 as examples (Mair and Marti, 2009; North, 1990; 1991; Sutter *et al.*, 2013).  
209 Second, an example of direct informal institutions may concern the status of an  
210 entrepreneur (Dolfsma and De Lanoy, 2016). Although in Western societies  
211 entrepreneurs may enjoy status, scholars found that in communist regimes  
212 and transition economies there were negative connotations to the term private  
213 enterprise or entrepreneurship. Entrepreneurs may lack status and respect (De  
214 Clercq *et al.*, 2010). According to Aidis *et al.* (2008: 658) entrepreneurs in the  
215 Soviet Union were 'equated with "speculators" and often deemed criminals for  
216 making a profit'. Another example includes the acceptance of interest payment.  
217 Islamic banks do not permit contracts in which interests are paid or received  
218 (Ergec and Arslan, 2013), even if this is formally allowed. Furthermore, a recent  
219 study found that ethnicity plays an important role in selecting business partners  
220 (Hedge and Tumlinson, 2014). Third, concerning indirect formal institutions,  
221 one may think of a society's political system. Acemoglu and Robinson (2006)  
222 model how political institutions (including dictatorships, absolute monarchies,  
223 oligarchies, and corrupt or even populist democracies (p. 325)) affect economic  
224 institutions and outcomes. Furthermore, one may think of the ways in which  
225 marriage law and inheritance law (cf. Carney *et al.*, 2014), or environmental  
226 regulations, may affect entrepreneurial behavior. Concerning the latter, Dean

227 *et al.* (2009) found that a country's regulation concerning pollution is, under  
 228 certain conditions, one of the factors affecting foreign direct investment decisions.  
 229 Fourth, and at last, indirect informal institutions include examples of culture in  
 230 general. Hawkins (1993) contrasts the individual character of entrepreneurship  
 231 to the group (collective) orientation of Japanese culture. Individual acts of  
 232 entrepreneurship go against accepted wisdom and are not valued in society. In  
 233 other societies there are clear gender roles that prevent women from participating  
 234 on the market. "Many societies continue to define women primarily through  
 235 roles associated with family and household responsibilities. [...] Further, the  
 236 entrepreneur's role is often characterized as being more masculine than feminine"  
 237 (Baughn *et al.*, 2006: 689). Bernard *et al.* (2010) argue that conservatism  
 238 in African societies may prevent entrepreneurship. A major obstacle is that  
 239 individual success is attributed to luck and not to effort. Since success is a  
 240 consequence of luck, successful people are expected to share their success in the  
 241 community. In addition if one is repeatedly more successful than others he or  
 242 she can be thought to manipulate supernatural forces. Incentives to work hard  
 243 are consequently reduced.

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

### 251 *Tensions between institutions: institutional swamp*

252 The four types of institutions form the institutional fabric, a fabric that can  
 253 be complex (Mair *et al.*, 2012). We argue that this complexity results in large  
 254 part from inconsistencies, conflict, or tensions between institutions (Dolfsma and  
 255 Verburg, 2008). The concept of tensions forms a central part of the framework.  
 256 We refer to a tension when actors in a certain practice are confronted with two or  
 257 more institutions prescribing different kinds of behavior that cannot coexist. In  
 258 such a situation, the actor will try to accommodate the tension by adhering more  
 259 or less to a certain institution, while avoiding, and possibly ignoring, another  
 260 institution (see also Dolfsma and Verburg, 2008; Neale, 1987; Oliver, 1991).

261 Tensions may exist between institutions within a cell in Figure 1 but also  
 262 between institutions from different cells. For example, some formal direct  
 263 institutions may stimulate market exchange while other institutions may result  
 264 in high start-up or labor costs and, therefore, compromise market exchange (De  
 265 Clercq *et al.*, 2010; Duvanova, 2014; Estrin *et al.*, 2013; Frederiksson, 2014;  
 266 Hawkins, 1993). The former institutions (laws) are benefiting some parties in  
 267 the market, whereas the latter institutions are benefitting others (cf. Dolfsma  
 268 and McMaster, 2011; Heller, 2008). For the sake of simplicity, we do not

269 elaborate on such intra-cell institutional tensions. Similarly, market exchange  
 270 is generally based on institutions that make no gender differences; however,  
 271 informal institutions may create tensions if gender issues, as indicated above,  
 272 influence the market behavior of men and women differently.

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

### 283 *Tensions between institutions: institutional entrepreneurship*

284 Individual entrepreneurs are embedded in an institutional context but their  
 285 behavior may also change this context (Seo and Creed, 2002). Several studies  
 286 analyze institutional change processes and focus on the role of institutional  
 287 entrepreneurs (DiMaggio, 1988; Dorado, 2005; Garud *et al.*, 2002; Mair *et al.*,  
 288 2015). Institutional entrepreneurs are actors who have an interest in modifying  
 289 institutional fabrics and have sufficient tangible and intangible resources to do  
 290 so (DiMaggio, 1988), either for all involved in a practice or to some.

291 Following the example on gender roles above, a woman in a certain society  
 292 may choose not to become an entrepreneur because of informal institutions, she  
 293 may decide to become an entrepreneur because law allows her to do so despite  
 294 informal resistance, or she might invite others to front as entrepreneur for her  
 295 and share the value created. Whichever behavior she chooses, in both cases she  
 296 simultaneously adheres to certain institutions while avoiding yet possibly defying  
 297 others (see also Oliver, 1991). Some market-related behaviors, or market-related  
 298 behaviors by some, may conflict with formal or informal institutions in the  
 299 society that do impact on market-related behavior, directly or indirectly. As  
 300 a consequence of choices made by entrepreneurs, institutions and institutional  
 301 fabrics may evolve. Continuing the example, this means that if women on a  
 302 sufficiently large scale decide to start their own business, informal institutions  
 303 that previously prevented them from doing so may change.

304 We follow Battilana *et al.* (2009: 72) in defining institutional entrepreneurs  
 305 as ‘agents who initiate, and actively participate in the implementation of,  
 306 changes that diverge from existing institutions, independent of whether  
 307 the initial intent was to change the institutional environment and whether  
 308 the changes were successfully implemented’. Although we acknowledge that  
 309 contradicting institutions may drown institutional entrepreneurs in the swamp  
 310 it is also possible, in some circumstances and for some actors, that institutional



311 entrepreneurs are able to change the institutional context and thereby sometimes  
312 actually benefit from the existing institutional tensions. It is even possible to  
313 see the tensions as a prerequisite or an enabling condition for institutional  
314 entrepreneurship (Seo and Creed, 2002). From this we derive two important  
315 observations. First, tensions are not necessarily counterproductive as they may  
316 provide room to some for institutional entrepreneurship. Second, the institutional  
317 environment is not fixed for individual entrepreneurial actors but can be  
318 moderated through their actions, at least at times. In particular, in young markets  
319 where the institutional environment is weakly developed or enforced, individual  
320 entrepreneurial action may affect the institutional context. Not enough is known  
321 about what allows institutional entrepreneurial actors to make institutions  
322 change.

323 We develop this framework of types of institutions each impinging on a  
324 practice, resulting institutional tensions, and a possible role for institutional  
325 entrepreneurial actors with case study data about farmer-entrepreneurs  
326 producing sesame in Ethiopia.

### 327 **3. Methodology**

328 A case study research design is the most appropriate for this study, since in-  
329 depth, socially-complex, multi-level data is required for this study (Yin, 2004).  
330 Because of the demanding circumstances in the environment the study focused  
331 on, multiple sources of information have to be consulted. One goal of consulting  
332 a number of different sources of information is to exclude possible alternative  
333 explanations for the phenomenon investigated different from the one suggested  
334 (Yin, 2003). We have undertaken several rounds of data gathering, each time  
335 discussing with country and sector experts if the data we had gathered had  
336 to be supplemented by data from different sources. Consistency of insights  
337 generated, compared with insights the project had offered up to a particular  
338 point and compared with what the experts consulted were knowledgeable about,  
339 in particular, would trigger a quest for additional data in a subsequent round of  
340 data gathering. The institutional setting for cooperatives and their members has  
341 not been studied. In advance, it was unclear what variables would be relevant to  
342 include as possible control variables.

343 Dependent on a careful selection of the case or cases for a study, guided by  
344 considerations arising from the theory used and developed, case study research  
345 allows for generalization (e.g., Giddens, 1984). Cases that are similar, from the  
346 point of view of the theory adopted, should be expected to show the same findings  
347 when the method to do research is adopted in the exact same manner. Provided  
348 that this is the case, theoretical generalization to other contexts is not just possible  
349 but can be validly pursued. Ethiopia is a developing country, and Humera is a  
350 province inside Ethiopia, in which a particular kind of entrepreneurial activity  
351 (sesame farming) has only recently emerged as physically feasible. Institutions

352 affecting this activity are developing, with a relative absence of formal, market-  
353 related institutions. This is a setting that should show the institutional void that  
354 some scholars discuss at length. Rather, as we find and as OIE would suggest, a  
355 number of different kinds of institutions, potentially in conflict with each other,  
356 impinge on the practice of entrepreneurship, presenting to the entrepreneurs  
357 a situation that many perceive as what we refer to as an institutional  
358 swamp. Entrepreneurs are curtailed in what they can feasibly do in their  
359 practice.

360 We collected case study data among cooperatives of sesame seed farmers in  
361 the Northwest of Ethiopia. The emphasis in our data collection was on both  
362 the institutional environment and the behavior of cooperatives. Cooperatives  
363 are expected to play a crucial role in the further development of agricultural  
364 markets in developing countries (World Bank, 2007). Most, but not all,  
365 farmers are seriously resource constrained and collective action is seen as an  
366 important instrument to provide them access to lacking resources (Bernard  
367 *et al.*, 2010). Collective action may allow them to develop the resources needed  
368 to accommodate the tensions and to develop institutional entrepreneurship  
369 (DiMaggio, 1988, McKague *et al.*, 2016). Interestingly, in this region, many  
370 cooperatives operate according to the same regulations, but have yet developed  
371 differently. Farmers can genuinely be conceived as entrepreneurs: individuals  
372 owning arable land can rent their land to others, taking a predetermined income  
373 and not accepting entrepreneurial risks for a deferred income. In addition, what  
374 resources farmer-entrepreneurs have differs between them and are actually being  
375 employed differently as well.

### 376 *Selection of the research site*

377 We were interested in collecting data in a developing country because  
378 institutional environments change quickly. In addition we wanted to be able  
379 to study how competing firms responded to institutional structures in this  
380 context. Ethiopia is chosen because the country is characterized by a high  
381 need to create institutions. The Northwest provided the scenery of severe fights  
382 during wars between the former regime and liberation fronts (until 1991) and  
383 between Ethiopia and Eritrea (around the year 2000). Formal direct institutions  
384 have been changing quickly as a result of the regime change and the economy  
385 has been growing at a fast pace since the beginning of the 21st century. In  
386 addition, sesame seed is a crop of major importance for the Ethiopian economy  
387 and therefore highly susceptible to policy making. After coffee it is the second  
388 largest source of export revenues. In the case of sesame seed farmers, institutions  
389 concerning the Ethiopia Commodity Exchange (ECX) and cooperative formation  
390 and management were designed and enforced. Production of sesame increased  
391 tenfold the past decade. Particularly in Northwest Ethiopia production increased  
392 rapidly and the quality of the sesame is considered to be high. After the war  
393 many farmers settled in the 'low-land' area Kafta-Humera that provides perfect

394 conditions for cultivating the cash crop sesame: abandoned land is now used for  
395 the production of sesame. Increasingly farmers started cooperatives to benefit  
396 from sesame production and trade.

### 397 *Research process*

398 We collected secondary data on laws, proclamations, and principles concerning  
399 the formation of cooperatives and the trade in agricultural produce. Furthermore,  
400 a range of industry experts were interviewed in order to map the institutional  
401 environment. Once we came to understand the institutional environment we  
402 interviewed farmers and leaders of cooperatives to study how they respond to  
403 the institutional environment. In total, 131 interviews were conducted during  
404 six visits to Ethiopia (see the appendix). Qualitative data collection and analysis  
405 techniques were used as suggested by Eisenhardt (1989; 1991) and Yin (2003). In  
406 the initial exploratory phase of our data collection, we studied nine cooperatives  
407 as potential cases in our study. Below, we give more detail how we decided  
408 to include four of the nine cooperatives as exemplary cases to be included for  
409 further study. These cases allow us to draw out our findings while avoiding  
410 too much data in our article. The four cases each demonstrated distinguishing  
411 characteristics that the other five cases all exemplified as well (Eisenhardt  
412 and Graebner, 2007; Langley, 1999) – most cooperatives behaved in similar  
413 ways as the cooperative Adebay. Adebay therefore represents the majority of  
414 cooperatives. The other cooperatives, Humera 1, Humera 2, and Maikadra,  
415 are included because their behaviors differed despite the same institutional  
416 environment. These last three cases demonstrate how entrepreneurs can respond  
417 to tensions and how it affects performance.

418 In total we conducted 131 interviews. A complete break-down of interviewees  
419 is given in the appendix. The interviews served different purposes. The large  
420 number of interviews was necessitated by the fact that, though secondary data  
421 about the sesame sector in Ethiopia is available, it is limited and of poor  
422 quality. In addition, interviewing allowed for triangulation between primary  
423 and secondary data.

424 All interviews were semi-structured, face-to-face, and started by asking about  
425 a number of questions of a factual nature. Farmers, for instance, were asked  
426 about their farming and trading activities, household composition as well as  
427 how many hectares they farmed and how much of that was used for sesame.  
428 In total, nine interviews with members of cooperatives were conducted and  
429 seven with non-members. A well-educated translator who was familiar with  
430 agricultural practices in the region was involved in the collection of primary  
431 data. Industry experts were interviewed in order to come to understand  
432 the sector and its institutional environment. Industry experts are defined as  
433 ‘highly knowledgeable informants who view the focal phenomena from diverse  
434 perspectives’ (Eisenhardt and Graebner, 2007: 28). Industry experts included  
435 researchers from universities and research institutes, staff from various NGOs,

436 aid workers, and consultants. Interviewing industry experts helped verify and  
437 complement data that we collected from interviews with farmers and cooperative  
438 representatives. Government staff at federal, regional (i.e., the region of Tigray)  
439 and local level (i.e., the county Kafta-Humera) was interviewed to come to  
440 understand their reasoning behind the development of policies, rules, and law  
441 and the way of enforcement. This was insightful, for example, since there  
442 appeared to be differences of opinion between federal and regional level on  
443 how to enforce certain laws. Other firms in the value chain not involved in  
444 production of sesame itself, ECX staff and spot market traders were interviewed  
445 to map the value chain, to study the farmers' positions in the value chain and  
446 to understand trade and supply conditions. These interviews revealed different  
447 outlets options available to farmers and cooperatives, and the conditions and  
448 advantages attached to each of them. Mapping the value chain allows for  
449 identifying entrepreneurial opportunities farmers can pursue, either individually  
450 or as a collective (i.e., at cooperative level). Large-scale farmers may have  
451 access to resources comparable to resources accessed by small-scale farmers  
452 who organize into a cooperative, but have a different governance structure and  
453 could therefore make decisions differently. Finally, leaders of cooperatives and  
454 farmers (both members of cooperatives and non-members) were interviewed.  
455 The interviews with senior managers of cooperatives (18 interviews in total)  
456 helped us to understand how entrepreneurial decisions are made at cooperative  
457 level.

458 This study is part of a larger research project focusing on other but related  
459 topics. We used the farm-level data collected by means of a survey among 369  
460 farmers, 198 of whom were members of cooperatives, after conducting a pilot  
461 study involving 12 farmers, 7 of whom were members of cooperatives (Olthaar,  
462 2015). We compared members of cooperatives to non-members in terms of  
463 their performance. In addition, to the extent that comparison is possible using  
464 this survey data, we found that institutional circumstances did not differ between  
465 members and non-members of cooperatives. Authors will provide this additional  
466 information upon request.

#### 467 **4. Findings**

468 In this section, we first present and discuss institutions that farmer-entrepreneurs  
469 in the Kafta-Humera region of Ethiopia face, by category distinguished.  
470 Subsequently we show and analyze how institutions can conflict to create an  
471 institutional swamp for all but some entrepreneurs. The discussion in section  
472 '*Four types of institutions*' gives the background for section '*Institutional*  
473 *tensions and entrepreneurial behavior*', which provides the argument about why  
474 entrepreneurs in this context mostly find themselves in an institutional swamp,  
475 while some are able to navigate the tensions successfully.

476 *Four types of institutions*477 *Direct formal institutions*

478 Almost all sesame grown in Ethiopia is exported as raw, unprocessed sesame.  
 479 Exporting firms are by law obliged to buy their sesame via the ECX. The ECX  
 480 is an auction organizing wholesale transactions between buyers and sellers of  
 481 several commodities. There are two exceptions to this rule: if cooperatives, their  
 482 Union or Federation, export they can bypass the ECX and exporting firms that  
 483 assume processing activities are allowed to engage in contract farming schemes  
 484 with primary cooperatives.

485 According to direct formal institutions sesame seed farmers in Kafta-Humera  
 486 have three sales outlets to choose from: (1) the cooperative, (2) the spot market  
 487 trader, and (3) exporters via the ECX. Currently, most farmers sell to a spot  
 488 market trader, whereas the remaining group of farmers sells to a cooperative.  
 489 Small-scale farmers do not sell via the ECX for two major reasons. First, to sell  
 490 via the ECX a license is required, which is too expensive for individual small-  
 491 scale farmers. Second, a minimum of 50 quintals<sup>2</sup> has to be delivered. Small-scale  
 492 farmers are not capable of delivering such quantities individually.

493 Cooperatives have not been in existence for long, as the former regime fell  
 494 only in 1991. In 1997, the first new cooperatives started to emerge, but the civil  
 495 war of 2000 interfered. Membership bases are now growing gradually, mostly  
 496 due to increased recognition of the potential of collective action. According to  
 497 law, cooperatives are organized at three levels: the region, the county (*woreda*),  
 498 and the village (*kebele*). At *kebele*-level farmers are supposed to organize in  
 499 so-called primary cooperatives. The primary cooperatives are expected to unite  
 500 in a Union at the level of the *woreda*. The major role of the Union in this  
 501 model, or the second-level cooperative, is to sell the farmers' produce in large  
 502 quantities, for example, for exporting. The idea is that at the level of the Union  
 503 required exporting capabilities can be developed such as language skills, legal  
 504 skills, quality control, and quantity accumulation. In the region under study,  
 505 Tigray, there is even a third-level cooperative called a Federation. Its distinctive  
 506 functions are unclear as it assumes similar roles as the Union, albeit with a more  
 507 diverse range of products and a larger scale. Primary cooperatives are by law  
 508 allowed to export (supposed that they have the required resources), to sell to  
 509 the Union, or to sell to exporters via the ECX. Similarly, the Union can export  
 510 directly, sell to the Federation, or to exporting firms via the ECX.

511 Law further provides formal rules regarding the operations of cooperatives  
 512 and prescribes that any group of farmers can start a cooperative in a *kebele*  
 513 as long as the purpose of the cooperative differs from existing cooperatives.  
 514 Members of a cooperative can determine the share price of the cooperative,  
 515 though cooperatives should exist of at least 10 members and no member is

2 The local measuring standard of 1 quintal is 100 kilogram.

516 allowed to have more than 10% of the shares. The law furthermore states that  
 517 of the profit made 30% has to be put in a ‘reserve fund’ (although it is unclear  
 518 what a reserve fund is), whereas 70% has to be distributed to members in the  
 519 form of dividend. One member has one vote. Members can elect a leader for  
 520 a period of three years which can be extended by one more period of three  
 521 years. Only citizens of the village in which the cooperative is located are allowed  
 522 to become member, although in case of shortage of money, a cooperative may  
 523 accept members from another village.

524 A majority of farmers, however, chooses to sell their produce to spot market  
 525 traders. Spot market traders bulk the produce of farmers and sell the sesame  
 526 via the ECX. Traders are interesting for farmers as cooperatives are not  
 527 operational permanently in all the *kebeles*. Moreover, traders pay cash, accept  
 528 different qualities, buy frequently, and may even provide credit. Apparently,  
 529 these advantages more than balance the alleged disadvantages concerning a weak  
 530 bargaining position for farmers, the risk of cheating, and relatively low prices.

### 531 *Direct informal institutions*

532 In addition to institutions that are directly targeting sesame production and  
 533 trade and are formally written down and enforced, there is a set of institutions  
 534 that directly targets sesame production and trade, but are not formally codified.  
 535 Remarkably, it is the government staff that ignores the formal institutions and  
 536 intervenes to enforce informal ones. The government does so because it fears that  
 537 without intervening the formal institutions cause farmers to be excluded from  
 538 market participation and cooperative membership. Much of the staff (though not  
 539 all of them) envisions a market in which every farmer can participate, preferably  
 540 in one collective. The idea is that all-inclusiveness (including all farmers in one  
 541 cooperative) will benefit the farmers (World Bank, 2007). As a result of this,  
 542 staff from both federal and regional governments enforces certain informal  
 543 institutions. A first institution is that, though *formally allowed*, government  
 544 staff does not *permit* farmers to establish more than one cooperative per village.  
 545 Government staff interferes in the formation of cooperatives and ensures that  
 546 only so-called ‘multi-purpose cooperatives’ are formed with the effect that  
 547 no other cooperative with a unique purpose can be formed anymore. To the  
 548 Ethiopian government, cooperatives also are a means of controlling communities,  
 549 and of suppressing politically unwelcome voices. Long sessions are conducted to  
 550 ensure that the members of a cooperative democratically ‘vote’ to adopt a policy  
 551 that the government favors for political reasons. Moreover, the government  
 552 prevents direct export by primary cooperatives, even if they have capabilities to  
 553 do so. Cooperatives are instructed that it requires a Union to benefit from export  
 554 sales. Direct export by a cooperative would give additional resources to such a  
 555 cooperative and would make it more difficult for the government to tax.

556 The situation on the ground is even more confusing as staff from the regional  
 557 government of Tigray set up a Federation, a third-level cooperative, and uses

558 its political powers to ensure that primary cooperatives supply sesame to the  
 559 Federation rather than to the Union. It did so by engaging in long and repetitive  
 560 meetings with leaders of cooperatives and by enforcing a new regulation that  
 561 allowed primary cooperatives only to sell to the Union if they were able to  
 562 proof the descent of their members. The latter is close to impossible in a region  
 563 with a weak administration and so much illiteracy as in Kafta-Humera. The  
 564 meetings functioned furthermore to ‘convince’ the leaders of cooperatives to buy  
 565 fertilizer from the state-owned monopolist. Cooperatives are also pressured to  
 566 keep the share price low to keep the cooperative accessible for new members and  
 567 to provide benefits to the wider community, including non-members. Another  
 568 salient aspect of the informal design is that leaders are supposed to receive a  
 569 salary for every day worked independent of how much profit a cooperative  
 570 makes.

571 Staff of the Regional Cooperative Agency (RCA) of Tigray explained that  
 572 these meetings are ‘a type of democratic approach. You cannot simply impose  
 573 cooperatives and members to do something, but they need to be convinced of  
 574 what they need to do by giving understanding’. They furthermore explained that  
 575 because ‘Ethiopia is a developing country the government functions to explain  
 576 to leaders of cooperatives what the best thing is to do’.

577 At the level of the individual farmer there are also other important non-  
 578 governmental informal direct institutions regulating, for example, the provision  
 579 of loans by spot market traders to farmers. Farmers engage in high pre-selling  
 580 costs due to the need to rent a tractor for plowing, hire laborers for weeding and  
 581 harvesting, buying bags for sesame, and other costs. Cooperatives often cannot  
 582 provide such loans due to free riding of members in the past. As a consequence,  
 583 cooperatives were defaulting on their loans provided by banks and government  
 584 which are therefore currently unwilling to provide loans to the cooperatives.  
 585 Access to loans from spot market traders is therefore highly attractive to farmers.

#### 586 *Indirect formal institutions*

587 The number of indirect institutions relevant to sesame trade is smaller than the  
 588 institutions mentioned so far. However, a very important one concerns access  
 589 to land. All land is State-owned, but land can be leased from the State. Where  
 590 most civilians can apply for the lease of two hectares, certain former fighters as  
 591 a kind of retirement scheme received 10 hectares of land and 5,000 Ethiopian  
 592 Birr (ETB) after the war. Some former fighters use this advantage to invest in  
 593 sesame farming. The land distribution is also affected by inheritance laws. While  
 594 land is leased for a certain period of time from the State, entitlements to land  
 595 use can be inherited by children. A problem, however, is that when a farmer has  
 596 two hectares and a number of children, the land is split-up and may become too  
 597 small to make investments for cash crops in addition to food crops used for home  
 598 consumption. A final formal, though indirect, institution concerns neighboring  
 599 country Eritrea – which used to be part of Ethiopia – being an official enemy with

**Figure 2.** Institutional fabric for farmers and cooperatives producing sesame in Ethiopia's.

	Direct Effect	Indirect Effect
Formal Institutions	ECX Trade regulations Cooperative formation Cooperative governance	Retirement scheme fighters Inheritance law State of war Land-ownership
Informal Institutions	Inclusiveness of membership Role of the Federation Loans of spot-market traders	Gender roles Religious beliefs Status of former fighters

600 which Ethiopia is still at war (though there is hardly any fighting). Kafta-Humera  
601 borders Eritrea. Farmers are constrained by the war because it formally prevents  
602 cross-border trade.

603 *Indirect informal institutions*

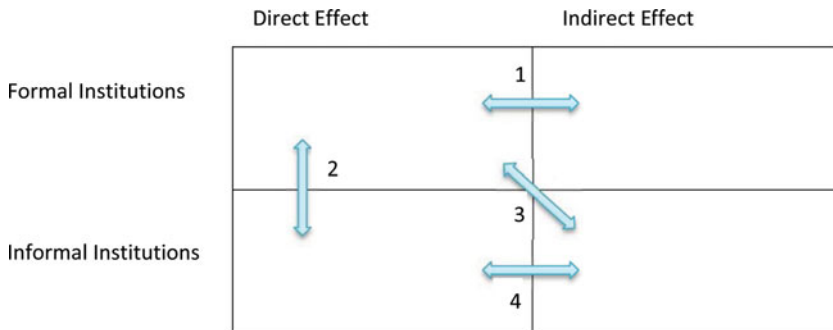
604 Finally, concerning indirect informal institutions, perceived gender roles still  
605 determine leadership of cooperatives. People in rural Ethiopia do not accept  
606 female authority or leadership by a young person. This means that leaders are  
607 not elected based on competencies, but on gender and age instead. Though  
608 institutions on authority are not directly designed to address markets or firms,  
609 they do affect markets as well. Similarly, religion plays an important role.  
610 Recurrently farmers responded in interviews that only God can provide good  
611 harvests and that there is not much they can do themselves. This answer was  
612 also given on questions regarding opportunities for irrigation, use of chemicals,  
613 and farmer organization. In other words, religious institutions prescribe that  
614 God is controlling everything and that there is little that man can do to be  
615 successful. Finally, throughout the country soldiers that participated in liberating  
616 the country from the former regime enjoy much respect and status. This status  
617 is sometimes accompanied with certain privileges that may also affect markets.

618 *Institutional tensions and entrepreneurial behavior*

619 [Figure 2](#) above empirically summarizes the institutional fabric that guides action  
620 of farmers and cooperatives as discussed above. Of particular theoretical interest  
621 are the resulting tensions and impact of these on entrepreneurial behaviors. After  
622 all, tensions and resulting entrepreneurial behaviors can make the institutional  
623 environment an institutional swamp to entrepreneurs. Drawing on the previous  
624 in '*four types of institutions*' section, we discuss a number of tensions that  
625 entrepreneurs face. The point of departure is the view expressed in parts of the  
626 literature that the entrepreneurial practice is regulated by formal institutions that



Figure 3. (Colour online) Institutional tensions.



627 directly impinge on it. If these are not present, an institutional void is said to exist  
 628 by some observers. This section makes the argument that the three other types of  
 629 institutions also impinge on entrepreneurial activity, creating potential tensions  
 630 of three kinds. Figure 3 indicates this situation. We discuss in this section in  
 631 particular the possibilities that some actors have taken to seek to change the  
 632 institutional environment to their own advantage.

633 Tensions of the first kind are present when formal institutions not primarily  
 634 aimed at the focal practice of entrepreneurship by sesame seed farmers do  
 635 affect this practice and lead to behaviors that actors would not otherwise show.  
 636 Tensions of the second kind are present when formal institutions regulating the  
 637 sesame market are not in line with how entrepreneurs themselves would organize  
 638 the practice. Tensions of the third kind are present when informal institutions  
 639 not primarily aimed at the focal practice do affect this practice and leads to  
 640 behaviors that actors would not otherwise show. Tensions of the fourth kind,  
 641 finally, are present when informal institutions not primarily directed at the focal  
 642 practice of entrepreneurship (by sesame seed farmers in Ethiopia) actually do  
 643 affect this practice and lead to behaviors that conflict with behaviors prescribed  
 644 by informal institutions directly aimed at the focal practice.

645 Most salient tensions in the case of sesame seed cooperatives in Ethiopia come  
 646 from conflicting direct formal and direct informal institutions (tension 2), but  
 647 other tensions are real too. At times, it may not be unequivocally clear what  
 648 kind of tension is at play. Where formally each group of at least ten farmers is  
 649 allowed to start a cooperative, this is prevented through informal institutions  
 650 that prescribe that each village may have only one cooperative dealing with a  
 651 specific agricultural activity (tension 2). As the establishment of multi-purpose  
 652 cooperatives is encouraged to exert more political control over villagers, there is  
 653 not much room left for other agricultural cooperatives, which comes at the cost  
 654 of specialization (tension 2). All land is owned by the State. After the civil war and  
 655 the war with Eritrea formal laws were designed, based on egalitarian principles,  
 656 to provide people the chance to get access to 2 hectares of land. However,

657 former fighters received 10 hectares (tension 1). Economic reasons may pit  
 658 against equally dividing land among farmers, yet these egalitarian principles were  
 659 favored by the new regime after a long period of communist rule by the DERG  
 660 regime (tension 1). At the same time, land or land rights cannot be sold. It can,  
 661 however, be rented to others (tension 1). Leaders of cooperatives are formally  
 662 allowed to determine the share price, but are informally pressured to keep the  
 663 share price as low as 50 ETB (approximately 3 US Dollars; tension 2), such  
 664 that the cooperative remains accessible to everyone. If everybody can become  
 665 a member of a cooperative, the Ethiopian government is better able to exert  
 666 influence over its citizens in this region. Cooperatives are furthermore formally  
 667 allowed to determine how to reimburse the leaders and staff of the cooperative,  
 668 but according to informal institutions the most preferred reimbursement is the  
 669 ‘per diem’ salary in which leaders are paid for each day they have worked (tension  
 670 2). In addition cooperatives formally can choose to sell to different buyers (ECX,  
 671 Union, importer, spot market trader), but are informally pressured to sell to  
 672 the Federation (tension 2, and 3 as the tension is political as well). Solidarity  
 673 principles prescribe the cooperative to bring benefits to the community and not  
 674 just to its members only (tension 2) – tractors that the cooperative has purchased  
 675 to help harvest and transport produce cannot be made available to members  
 676 only or first. In other words, the cooperative is expected to consider the goods  
 677 it creates more as social or local public goods than as club goods. Cultural,  
 678 informal indirect institutions further prescribe that authority is a masculine  
 679 role for senior people, but ignore needed competences (tension 3). Religious  
 680 beliefs may cause farmers to refrain from making entrepreneurial investments in  
 681 cooperatives, such as investments in irrigation (tension 3). Finally, the status of  
 682 former fighters gives them rights that go against the informal direct institution  
 683 of all-inclusiveness. Contrary to other farmers, former fighters are ‘permitted’  
 684 to form their own cooperative even if there is one already in a certain village  
 685 (tension 4). These situations confront farmers and leaders of cooperatives with  
 686 choices to make, exemplifying tensions of the kinds highlighted. Practices can  
 687 differ slightly from one setting to the next, and actors within them can behave  
 688 more or less as an institutional entrepreneur. We discuss the entrepreneurial  
 689 practice in four villages in the Humera region in Ethiopia, where the village-  
 690 cooperative of Adebay is representative for the most common behavior and the  
 691 five village-cooperatives not discussed, and the other three cooperatives (Humera  
 692 1, Humera 2, and Maikadra) each show distinct features from the point of view  
 693 of institutional entrepreneurial behavior.

#### 694 *Adebay*

695 The cooperative Adebay is almost drowning in the swamp. Concerning the  
 696 tensions above it often chose for institutions prescribing non-entrepreneurial  
 697 behavior. The share price was kept low despite the organization’s investments in  
 698 a warehouse, office, and tractor. Leaders were paid per day, sitting in an office

699 as much as possible rather than more directly for promoting the interests of the  
700 cooperative (tension 2). Leaders had little incentives to increase profits since this  
701 would not affect their salaries. The cooperative sold its supply to the Federation  
702 (tension 2 and 3), made its assets (such as the tractor) available on a first-come-  
703 first-served basis (tension 2), and elected leaders based on seniority and gender  
704 (tension 3).

705 Several problems resulted that cause the cooperative to nearly drown.  
706 The elected, but incompetent, leader hardly enjoyed education and has little  
707 understanding of managing businesses. This makes him very susceptible to  
708 'advices' from the RCA. We observed much dissatisfaction concerning the  
709 cooperative among both members and non-members. Members were about to  
710 lose their patience after not having received dividend for four to five consecutive  
711 years. Without dividend there is no price difference between what the cooperative  
712 pays to farmers and what spot market traders pay. Members started to lose their  
713 trust in the organization as they did not know what was done with the profits  
714 of the organization. The cooperative also did not have an accountant and was  
715 not transparent at all concerning revenues and costs. The leaders argued that  
716 the money was kept in the safe and that they were hoping for a government  
717 accountant to come (which had not come for over four years).

718 Aside from the lack of trust and incompetence of the leader, at the time,  
719 the cooperative could not trade in much sesame. The reason was that they  
720 were selling to the Federation. The Federation got into large financial problems  
721 and it took about four months before cooperatives received the money. In  
722 the meantime, cooperatives did not have money to finance other transactions.  
723 Cooperatives are not considered trustworthy lenders by banks and government,  
724 so borrowing money is not an option. The cash flow problems resulting from  
725 selling to the Federation limited the amount of sesame the cooperative could buy.  
726 The cooperative furthermore allowed new farmers to become member of the  
727 cooperative for only 50 ETB (tension 2). Though willingness to become member  
728 was low among non-members, the regulations also resulted in little willingness  
729 to invest among existing members (tension 2). In the past the cooperative used  
730 profits partially to buy equipment or to construct a warehouse. Non-members  
731 are given equal access to these assets as members, even though members forfeited  
732 the dividend the cooperative would have been able to pay had it not invested in  
733 these assets (tension 2). In the last interview, the leader said he would increase the  
734 share price to 100 ETB, but even if this is done, the share price would not reflect  
735 the value of the assets properly and, consequently, would not help to resolve the  
736 low willingness to invest.

### 737 *Humera 1*

738 That it is possible to play the institutional environment differently than Adebay,  
739 and all the cooperatives it represents are illustrated by three other cooperatives,  
740 of which the first one is Humera 1. The cooperative is fortunate to have a senior

741 male leader who is educated and competent (tension 3). The leader of Humera 1  
742 understood that for the cooperative to succeed it is vital to create trust among the  
743 members and willingness to invest. He therefore employed a certified accountant  
744 and created transparency by communicating clearly all the money streams. He  
745 decided not to have a per diem salary, but a commission based salary with  
746 which he would receive 2% of the profits made as reimbursement. As such he  
747 created an incentive to make as much profit as possible (tension 2). He wanted  
748 to engage in continuous buying and selling transactions, such that the limited  
749 cash available at the organization would realize a high turnover. This ambition  
750 was partially frustrated when he did not get paid quickly for the sesame he had  
751 sold to the Federation. This delayed payment made him threaten the Federation  
752 with a law suit. The threat alone was sufficient for the Federation to pay him  
753 quickly. The reason is that Humera 1 is one of the few cooperatives with an ECX  
754 license. The Federation is an initiative of the regional government, whereas the  
755 ECX is one originating from the federal government. The federal government  
756 has high stakes in making the ECX succeed and prefers cooperatives to sell via  
757 the ECX rather than to the regional Federation. The Tigray Federation feared its  
758 chances of success in a law suit at federal level. For a cooperative, selling via the  
759 ECX is interesting because buyers deposit money at the ECX prior to bidding  
760 and, therefore, sellers receive the money guaranteed within two days after sales  
761 (tension 2).

762 The leader of Humera 1 furthermore increased the share price to 400 ETB such  
763 that the share price would more closely reflect the organization's value (contrary  
764 to what was informally preferred by the RCA – tension 2). From the data we  
765 learn that members are highly positive about the organization, new farmers were  
766 joining, and revenues and profits have been increasing for a number of years. In  
767 addition, it paid dividends to its members.

768 We must stress that the actions taken by the leader of the cooperative are not  
769 simple choices. The pressures to conform to (in)formal institutions, including  
770 those indirectly affecting the entrepreneurship practice, are high. Staff of the  
771 RCA, for example, told us in an interview that they did not like this commission-  
772 based salary and high share prices, and that they would take steps to inform the  
773 cooperative that these practices are not desirable. We do not know what steps the  
774 RCA effectively took, but up to the last interview the leader was sticking to his  
775 commission-based salary and share price. The pressures of the RCA, however,  
776 do make up the tension and make it less obvious for a leader what kind of  
777 reimbursement scheme to choose.

### 778 *Maikadra*

779 The third cooperative, Maikadra, is not drowning in the swamp, most  
780 importantly due to a processing firm interested in buying sesame directly from  
781 the cooperative (tension 2). The processing firm is organic certified and needs  
782 produce from certified farmers. However, at the ECX there is no grade or

783 standard for organic produce. Sesame is bulked based on other criteria, making  
 784 it impossible to buy organic produce via the ECX. The processing firm lobbied  
 785 for over a year in order to be permitted to source sesame directly from Maikadra.  
 786 As a result of this, the law recently changed and nowadays processing firms are  
 787 allowed to source directly from cooperatives, thereby, bypassing the ECX. The  
 788 government changed the law because it acknowledged the importance that more  
 789 value-adding activities take place within its borders. The benefit for Maikadra is  
 790 that in addition to a new sales outlet, it also gained access to organic fertilizer  
 791 that the state-owned monopolist could not supply and loans provided by the  
 792 processing firm.

793 The challenge for Maikadra is currently to remain supplier of the processing  
 794 firm. They do make investments in warehouses and trucks, and only organic  
 795 certified members can make use of it (tension 2), but the share price is still kept  
 796 low despite these investments (tension 2). The access to loans (sesame farming  
 797 requires high pre-selling costs), and organic fertilizer may be a sufficient reason  
 798 for members to participate actively in the cooperative and new members to join,  
 799 but more potential can be realized.

#### 800 *Humera 2*

801 The name of this cooperative, *Humera 2*, already hints at a first tension that  
 802 is challenged by its founders. Humera is the name of a village. According to  
 803 informal institutions only one cooperative per village is permitted. The founders  
 804 of Humera 2 found a way to play tension 1 and started their own cooperative  
 805 with their own governance style, refusing new members, but enjoying high  
 806 profits (tension 2). Humera 2 is an organization quite distinct from all the other  
 807 cooperatives because it was not institutionalized according to the recommended  
 808 blueprint. Humera 2 was founded in the year 2002 by 18 former fighters for the  
 809 Tigray People's Liberation Front (TPLF). Their status provided them some extra  
 810 freedom in playing the institutional environment (tension 4). The cooperative  
 811 engaged in all kinds of activities including sesame farming and trade. Their  
 812 activities were diverse and the members were capable of engaging in diverse  
 813 activities since they received 10 hectares of land after the war and 5,000 ETB  
 814 (tension 1). Humera 2 formulated clear governance regulations. Its starting share  
 815 price was 3,000 ETB, which is much higher than the conventional 50 ETB that  
 816 other cooperatives charge. The members formulated strict agreements concerning  
 817 commitment and tasks were distributed according to competencies. Profits would  
 818 be invested immediately in new business activities and salaries would be equal for  
 819 all members. If a member does not participate actively, he is sanctioned by means  
 820 of not receiving a salary. No new members are allowed unless they know the  
 821 potential member well (tension 2). Recently, they set the share price to 50,000  
 822 ETB. When data collection approached the end, Humera 2 even changed its legal  
 823 status from a cooperative to a limited liability company.

824 *Summary*

825 Above we discussed different tensions. The tensions confront the leaders of  
 826 the cooperatives with choices to make. These choices affect their success. Most  
 827 cooperatives, as represented by Adebay, face major problems and hardly survive.  
 828 In other words, they are almost drowning in the swamp. Humera 1, Maikadra,  
 829 and Humera 2 found ways to play the institutional environment and turn the  
 830 tensions into opportunities to gain advantages. They used different mechanisms  
 831 to do so. For the sesame seed cooperatives in our study, most tensions resulted  
 832 from contradicting and conflicting direct formal and direct informal institutions.

833 **5. Discussion and conclusion**

834 No societal sphere, including a market, is an institutional void – even when  
 835 no formal institutions directly seek to regulate actors’ behavior in one sphere,  
 836 informal institutions and formal institutions from another sphere will (Rawls,  
 837 1955). Rather than an institutional void, a plethora of possibly conflicting  
 838 institutions, creating what we call here an ‘institutional swamp’, can hamper  
 839 entrepreneurs. Institutional fabrics are complex we argue, and show that tensions  
 840 that confront entrepreneurs arise. Attributing a lack of entrepreneurial behavior  
 841 to the absence of direct formal institutions (or their enforcement), to ‘voids’,  
 842 may be misleading. Voids ignore the ‘on the ground dynamics’ (Mair *et al.*,  
 843 2012: 819), and the interactions between institutions. We propose a framework  
 844 to understand these dynamics, allowing for a better sense of what affects  
 845 entrepreneurs.

846 In remote, barren Humera, a region in Ethiopia where a few formal institutions  
 847 exist in direct support of entrepreneurship and market exchange, informal  
 848 institutions and formal institutions from others spheres impinge. From such  
 849 other spheres, an important example is the principle of solidarity that conditions  
 850 the market and the informal blueprint that local government staff recommends.  
 851 A consequence is that each municipality is officiously only permitted to have one  
 852 cooperative. In addition, partly informally, no farmer can be excluded from a  
 853 collective, despite resulting free-riding problems.

854 When some institutions – formal or informal, directly aimed at a sphere  
 855 or not – prescribe one kind of behavior, and other institutions prescribe  
 856 different, conflicting behaviors, ambiguity and tensions arise. Some actors are  
 857 able to play the environment and act more entrepreneurially, whereas others  
 858 are paralyzed and risk ‘drowning in the institutional swamp’. Institutional  
 859 entrepreneurs make choices that avoid the tensions that arise from conflicting  
 860 institutional prescriptions for behavior. Institutional contexts do allow for  
 861 agency. Institutional entrepreneurs do not simply ignore institutions that prevent  
 862 them from adopting preferred behaviors in pursuit of their goals. Rather, they  
 863 can reach their goals by adopting behaviors that are, for instance, ostensibly

864 in line with institutions that could be seen to hamper reaching a goal. Humera  
865 1, for instance, is strongly focused on market transactions and the pursuit of  
866 profits, in apparent contrast with principles of solidarity, but can do so as it also  
867 invests in the community. In addition, it can resist regional government pressures  
868 to supply the Federation by drawing on its cognitive and financial resources and  
869 threatening with a law suit. These actions are legitimate, but only successful if  
870 properly played.

871 Cooperative leaders should have resources, but should in particular be seen as  
872 legitimately behaving themselves (cf. Oliver, 1991). Members of Humera 2 have  
873 a strong reputation having served for a long time as officers in the army against  
874 the former regime. If the leader of a cooperative is chosen because of seniority,  
875 rather than merit, however, chances that he can effectively act as an institutional  
876 entrepreneur avoiding an institutional swamp may be lower.

877 The room for some to play the institutional environment, but also the difficulty  
878 for many to do so, has hardly been recognized in studies on institutional  
879 environments and entrepreneurship in developing countries. Recognizing this  
880 room is of importance to current literature as it maps the space in which  
881 (institutional) entrepreneurs can maneuver, avoid drowning in an institutional  
882 swamp, and be successful. Humera 1, Humera 2, and Maikadra mostly adhered  
883 to market institutions, each in their own way, whereas the other cooperatives,  
884 represented by Adebay, mostly adhered to institutions far less friendly to market  
885 exchange. As a consequence, the prime goal of having a cooperative, seeking  
886 scale economies to strengthen the position in the market, cannot be reached.

887 The framework we propose allows one to understand the 'on the ground  
888 dynamics' in a sphere in society. Informal institutions and formal institutions,  
889 direct, or indirect, can prescribe behaviors. The behaviors prescribed can conflict,  
890 causing tensions in a sphere, and giving rise to what we call an institutional  
891 swamp. Institutional entrepreneurs, skilled and possessing legitimate resources  
892 that they employ in a way that is seen as legitimate, can resolve some of the  
893 conflicts and indicate worthwhile solutions for further economic development.  
894 Successful cooperatives that play the institutional environment can become  
895 inspiring benchmarks for others.

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

907 *Managerial and policy implications*

908 Perceiving a societal sphere as an institutional void in case there are no or a  
 909 few formal institutions that directly prescribe behaviors in it, naively ignores the  
 910 fact that informal institutions, as well as formal institutions that are primarily  
 911 focused on a different sphere, do impinge on it too (cf. North, 1990). Ignoring  
 912 that will give rise to the naive policy suggestion to import formal institutions that  
 913 elsewhere regulate such a sphere. For policy makers, an important implication  
 914 is to find the balance in institutional fabrics that satisfies the principles that a  
 915 society values, yet reduces ambiguity. In other words, institutions targeting the  
 916 practice of market exchange need to be aligned with institutions targeting other  
 917 values, preferably in such a way that society's values are hardly compromised.  
 918 Furthermore, the importance of legitimacy is important to recognize. Top-down  
 919 designed and installed institutions may not bear legitimacy in society and evoke  
 920 acts of defiance, avoidance, resistance, or other acts of agency (see Oliver, 1991).  
 921 Moreover, policy makers should facilitate institutional entrepreneurs as they may  
 922 be helpful in finding the proper balance and in creating more effective institutions.

923 For cooperatives and involved NGOs, an important implication from our  
 924 study is to detect the room for maneuvering, the room existent in institutional  
 925 fabrics to play the environment. Particularly in the context of ambiguity, varied  
 926 acts of behavior may be possible. In other words, institutional entrepreneurship  
 927 can be a source of competitive advantage in such settings. Similarly, NGOs  
 928 supporting firms in developing countries can benefit from recognizing the  
 929 complexities of institutional fabrics, and to exploit tensions in the benefit of  
 930 supported firms.

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1062 **Appendix**

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We conducted the following number interviews

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<i>Cooperatives (leaders and staff)</i>	
Humera 1	3
Humera 2	2
Maikadra	3
Adebay	3
Central	1
Aydola	1
Bereket	2
Baekar	2
Tirkan	1
<i>Other farmer organizations</i>	
Large-scale farmers’ cooperative	1
1064 Sesame farmers’ union Humera	3
Sesame farmers’ union Sanja	2
Oromiya Coffee Union	2
Federation	3
<i>Farmers</i>	
Members of cooperatives	9
Non-members	7
Large-scale farmers	11
<i>Other</i>	
Government staff	16
Industry experts	32
Export and processing firms	20
ECX staff	4
Spot market traders	3

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