An Institutional Perspective on Entrepreneurship in a Conflict Environment: Evidence from Pakistan

Abstract

Purpose
In this paper, an institutional perspective is used to examine the different kinds of pressures on entrepreneurs manifest in a conflict environment. The study investigates how they respond to the conflict and establish legitimacy for their entrepreneurship in the challenging context of the north western areas of Pakistan.

Design/methodology/approach
In this study, a qualitative approach is taken based on semi-structured interviews from 16 different firms in the SWAT valley.

Findings
The entrepreneurs undertake different strategies towards dealing with conflict and establishing legitimacy. These strategies are identified and examined in relation to the interactions between entrepreneurial behaviour and institutional pressures.

Research limitations/implications
Qualitative research on a small sample inevitably presents a limitation on the generalisability of this work. Further research could employ quantitative methods to address this issue. One particular location is studied, so future research could be carried out in other countries or regions with similar problems.

Practical implications
The study may have value for policy makers who need to know more about how to support ongoing businesses in conflictual regions.

Social implications
Better understanding of the needs of small business may in time contribute to a better business climate in conflictual regions.

Originality/value
A new dimension is added to institutional theory through its application in the very uncertain environment between all out war and ongoing violence, identifying the possibility of weak agency for institutional change. Further, the study contributes to the growing body of literature on entrepreneurship in conflict environments.

Keywords: Conflict, institutions, SMEs, Pakistan, entrepreneur, legitimacy

Paper Type: Research paper

Wordcount: 10,500

Introduction

In this paper, an institutional perspective is applied to the thorny problem of entrepreneurship in regions subject to ongoing conflict, specifically, the Swat valley in the north western areas of Pakistan. In doing so, the importance of context on entrepreneurship, which has received significant attention in recent literature (Bjornskov and Foss, 2013; Welter, 2011; Zahra *et al*., 2014) is acknowledged. Despite the challenges of conflict, some small and medium sized businesses and enterprises (SMEs)in the region do persist over time, with a degree of success. The question is,how are these firm owners orienting their entrepreneurial behaviour to deal with thechallenging institutional landscape that shapes their context?This studyis based on a qualitative studyof 16 firms, that have persisted over time, to develop an understanding of the relationship between entrepreneurship, institutions and context in conflictual circumstances (Welter and Smallbone, 2011; Welter and Smallbone, 2012).

This is an important question, because entrepreneurship and SMEs are seen as vital in developing and emerging economies, due to their potential to support economic growth and productivity, as well as social improvement (Leff, 1978; Puffer *et al.,* 2010). This is so in Pakistan, where they provide the bulk of employment and contribute over 35% of GDP (Chemin, 2010). Yet while they produce a quarter of manufacturing exports, most SMEsin Pakistanproduce low value-added products that rely on traditional technologies. In addition, entry rates for new businesses are low, which Chemin (2010) attributes to a challenging economic and sociocultural environment for entrepreneurship. It can be difficult to 'do business', particularly as a formal, registered business (Williams and Shahid, 2014), which can impede entrepreneurship (Williams and Vorley, 2014).Although there is potential for development, and indeed many success stories, the limitations of this low base are exacerbated in regions where conflictual circumstances pertain, such as in Khyber Pakhtunkwha(KPK) and surrounding regions in the north west of Pakistan and the border regions with Afghanistan.

The relatively recent 9/11 attacks and the subsequent follow-up actions have created a new conflictual environment with the two countries of Afghanistan and Pakistan as the epicentre, particularly in KPK and the surrounding areas of Pakistan. These two countries are continuously under threat due to extreme conflict activities (Chen *et al.,* 2007). The conflict ranges from outright war-like strikes on villages, and core infrastructure elements such as roads, bridges and communications, to more subtle and persistent effects related to ongoing terrorism.This has manifested itself in bomb attacks on markets, places of worship, and schools in the Swat region, which has had a detrimental effect on economic growth (Shahbaz*et al.,* 2013). As Gaibulloev and Sandler (2008) point out, terrorism has the potential to curb economic growth through a number of channels, particularly through diverting funds away from growth-promoting activities, towards repairs and counter-terrorist measures. In addition, the fear and uncertainty generated by terrorism can reduce investment, particularly from overseas, as potential investors seek less violence-prone countries (Abadie and Gardeazabal 2008, Enders and Sandler 1996, 2006). Terrorist attacks also increase the cost of doing business through repairs, expensive insurance and lost business due to closure, as well as directly affecting sectors such as tourism (Abadie and Gardeazabal 2003).

Bruck*et al*. (2015) argue that entrepreneurs are impacted by conflictual situations in different ways and to different extents due to the nature and extent of the conflict in question. Bullough*et al*. (2014) show the importance of resilience and self-belief for entrepreneurs persisting through conflictual situations. Ciarli*et al*. (2015) note that entrepreneurial activity can actually increase in times of conflict, but the quality of outcome can be diminished, in that the growth–focussed activities practiced in peacetime can be replaced with survival activities that provide little return or prospect of future development. Generally, conflicts can deplete the capital stock of a country and its firms; they can also deplete the human capital, impacting on how individuals

or communities perceive potentially profitable opportunities and create new value from these opportunities.

Bruck*et al.* (2015) argue that thus far, the majority of research on entrepreneurship has dealt with economic growth and development in relatively stable contexts, including where conflict has ended and restructuring is underway, such as in the transitional economies of Eastern Europe. Situations where countries or regions get mired down in economic decline and ongoing conflict tend to be neglected. Roberts (2010) also notes that little research has been done in this domain. Most studies thus far have highlighted the impact of conflict around issues concerning security and reconstruction at the macro level, and also with the role of the state agency (see Collier, 1999; Cramer, 2006). There has been less interest thus far in the microeconomic impact of conflict and the extent to which it deters or defines entrepreneurial activities (Ciarli*et al.,* 2010). Some studies have begun to reveal the direct and indirect impact of a conflict environment on entrepreneurial activity, particularly in Afghanistan (Binzel and Tilman, 2007; Bullough*et al.,* 2014; Justino, 2009). If conflict affects a business in a one-off, shock-like manner, the loss of employees (they may have fled or may have been killed) may well destroy a business in the short term. Later on though, activities may be resumed, and a resilient business may return to stability, of a kind (Bruck*et al.,* 2011). In contrast, despite the recognised tenacity of entrepreneurship in conflictual situations (Bullough*et al.,* 2014; Ciarliet al., 2010) continuous, unremitting conflict may have a destructive impact on firm-level investment and growth over the long term, which may result in a growing number of business failures and economic decline over time (Bruck*et al.,* 2011). While many agencies work towards a more peaceful climate for business in conflictual regions, there is no knowing if or when that will prevail, and it is therefore important to understand how successful SMEssucceed in the short term. Despite all thecontextual difficultieswhich impact on the likelihood of entrepreneurial success (Dollinger, 2003), many SMEs manage to not only survive, but thrive.

Further research is needed to effectively understand the needs of entrepreneurs and SME owners in the region, as they struggle to succeed, yet are so important in the social fabric of the region as it strives towards a more stable future. Better understanding of the difficulties they face at the micro-level may aid the appropriate targeting of support programmes.

Thus, in this paper, the interplay between the conflictualcontext and the entrepreneurial behaviours of theowner-managersof 16 small firms in a particular area, the Swat valley is investigated. Welter and Smallbone (2012) recognise that entrepreneurship is influenced by external conditions and situations, which can impact on personal circumstances, and also on how entrepreneurs behavein regard to opportunity recognition and development, and business strategy. This is important because the classic vocabulary around concepts used to explain entrepreneurship, such as the need to achieve success, motivation and fulfilment for example, must be interpreted in the context in which they are used. Following on from that,the outcomes of such research must be grounded in that context.To that end, institutional theory is a valuable theoretical frame for underpinning new empirical studies. In enabling us to connect the agency of entrepreneurship with the interplay between formal and informal institutions (Hashi*et al.*, 2011; Maguire and Hardy, 2006; Welter and Smallbone, 2011; Williams and Shahid, 2014; Williams and Vorley, 2014), institutional theory enables us to explain entrepreneurial behaviour patterns in the challenging conflictual context, as the entrepreneurs seek to operate legitimately in the uncertainties in which they find themselves.Lounsbury and Glynn (2001) and Martens *et al*., (2007) articulate the importance of research into legitimacy, particularly that which focuses on how entrepreneurs gain legitimacy byarticulating stories (micro level) about themselves with appropriate institutional beliefs (macro-level).

The contribution of this research istwofold. First, the article provides difficult to access empirical evidence on entrepreneurial behaviour in a conflict environment, thus adding to the work of Bruck*et al.* (2015), Bullough*et al*., (2014) and Ciarli*et al*., (2010) and Roberts, 2010). The second contribution is to the theory on institutional understandings of entrepreneurship in context, extending the existing literature to include conflict (rather than occupation, or economic turbulence) as a context (Welter and Smallbone, 2011; Williams and Shahid, 2014; Williams and Vorley, 2014). In doing so, the 'green shoots' of weak agency for institutional change are identified. The paper proceeds with the research context, then a review of the literature, methodology and findings. A discussion follows, the implications of this research are considered and conclusions drawn.

Research Context

Research concerning conflictual environments and entrepreneurial activity has only recently become a focus for academic scholars and the relationship between the two is not well understood (Boudreaux, 2007; Bruck*et al.,* 2011; Bullough*et al*, 2014; Bruck*et al.,* 2015; Ciarli*et al.,* 2010). At a very basic level, continuous conflict can result in the cessation of entrepreneurial activity altogether, or at best the continuance of basic survival level 'necessity' entrepreneurship. Of course, in those areas where severe conflict activities continually deter the growth of businesses,there is little research, due to limited access for security reasons (Roberts, 2010). Where the conflict is less severe, businesses may persist and thrive, though in constrained circumstances, as is the case in this study.

Institutional theorists tend to distinguish between formal institutions, such as constitutional government and military forces, and informal institutions, which refer to patterns of relationships around culture and values. Both formal and informal institutions can be weak or

strong, but it is unwise to assume that there is necessarily a clear definition between the two (Bratton, 2007). In Pakistan, on the formal side, there is an elected constitutional government, a well-trained army, plus education provision and the rule of law. The formal institutions tend to work well in developed urban areas, but less so, the further one gets into the regions. Some of these remain quite undeveloped and tribal agencies or networks are influential in governance, embedding their own customs and values(Nouman, 2011). The Swat valley falls into this category; it is in the province of KPK, a hundred miles from the capital of Pakistan, Islamabad. Another powerful force in the regions is the 'Pakistani Taliban (Tehrik-i-Taliban)[i] political movement, which can compete for representation through the formal democratic system, but has been responsible for insurgency too. The Taliban espouses a hard line version of Islam, which favours the imposition of Islamic Sharia law over the current legal system in Pakistan.The latter was initially based on British Law in India, and more lately, the US Federal system, albeit with some nuances influenced by Islam. The calls for Sharia law have impacted not only at regional level in Swat, but also for national implementation too[ii]. This intermingling of politics, comprising formal processes and offices, with religioncomplicates the picture; as a set of cultural values, religion is informal, but it can manifest as formal or quasi-formal too. A further institutional complexity relates to questions over whether Pakistan's armed forces and intelligence operations are as separate from the Taliban as they have claimed to be since 9/11.

The conflict referred to in this studyresulted froman initial Taliban insurgency in the Swat valley in 2008, and ongoingmilitary responses to it bynational government troops.Prior to the Taliban attacks, Swat was a major tourist area in the region, with some strong national institutions, such as formal education; for example, Swat boasted a comparatively good record within KPK for literacy and education for girls. Government troops were initially defeated by the Taliban, who took control of local administration, police and schools and then imposed a

strict version of Sharia law. Girls' schools were closed down and women could no longer participate in society as they had before. Many businesses were closed down too, due to uncertainty in the region, and some were annexed by the Taliban (Rashid, 2009). This was a difficult era for everyone, not just business, as many people were killed outright, and many 'old scores' were settled. In 2009, six million people were displaced from Swat, becoming Internally Displaced People. Since then, sporadic terrorist activities have continued around clashes in culture, norms and values; military action by the Pakistan army to remove the Taliban continues to this day. While many businesses and organisations continue to operate in the region, institutional changes of this magnitude clearly create a difficult context for businesses, impacting on every aspect of business operation; in addition the ongoinguncertainty presents a strategic challenge. Although the situation at present is relatively stable, business owners have to act and make decisions for the long and medium term, not knowing how long the situation will continue, or what the eventual outcome of the tensions might be. This context thus presents a unique context for examining entrepreneurship in a conflictual institutional environment.

Literature review

Welter (2011) argues that the context in which entrepreneurship occurs impacts upon attitudes and motives, and the resources that can be mobilized as well as the constraints and opportunities on/for starting and running a business (Doern, 2014; Martinelli 2004). As a consequence, the context has an impact on the nature, pace of development, and extent of entrepreneurship as well as the way entrepreneurs behave (Zahra *et al.,* 2014). It has been argued by several authors that institutional theory provides a useful framework for enhancing understanding of the relationship between the entrepreneur and their context (Bruton*et al.,*2010; Jennings *et al.*, 2013; Lang *et al.*, 2014; Thornton *et al.*, 2011). Hoskisson*et al.,* (2000) argue that institutional theory emphasises the different externalpolitical, economic and societal influences on

individual behaviour, thus acknowledging different levels of institutions. Kloosterman*et al.*(1999) andKloosterman(2010) too, suggest a multi-layeredanalysis based on the concept of mixed embeddedness, which recognises the diverseinstitutional layers at macro and micro level, in which human agency is embedded. A society's institutional environment is viewed as having a strong influence on entrepreneurial activity (Acemoglu and Robinson, 2012). Spedale and Watson (2014) remind us that the individual cannot be separated from their context and that entrepreneurial action emerges at the intersection between society and the individual. Thus, as socially embedded actors, individuals facing situations and problems call upon habitual schemas and previously successful routines to orient their behaviour. However, habit has to be flexible when faced with the presence of multiple and competing institutional logics (Spedale and Watson, 2014; Thornton, 2004) which may present competing claims and necessitate diverse courses of action, as actors seek to segregate or distinguish themselves from others (Lounsbury, 2008).Lounsbury and Glynn (2001), Martens *et al*., (2007) and Navis and Glynn (2011) all emphasise the importance of entrepreneurial behaviour being perceived in society as legitimate in relation to the institutional climate in which they operate. Warren and Smith (2015) remind us that there may be adverse outcomes if entrepreneurs fail to navigate by the rules of the day. Yet the tensions of achieving legitimacy can be very challenging in Pakistan, where it is widely recognizedthat informal institutions relating to commonly held norms, values and beliefs may differ from formal laws and regulations, resulting inwhat formal institutions deem to be illegal activities (round taxation for example) being construed as legitimate in the community (FBR 2008).

Other authors have noted that entrepreneurs react in different ways to challenging institutional environments that are hostile, but fall short of war. Such environments can present uncertain and turbulent institutional frameworks, such as during the restructuring of post-Soviet bloc

economies. Here, entrepreneurs may react by evading the rules and formulating other solutions, usually via informal pathways which are nonetheless accepted as legitimate in the community (Kalantaridis, 2007;Mair, *et al*., 2012; Sutter *et al*., 2013; Welter and Smallbone, 2011; Williams and Shahid, 2014; Williams and Vorley, 2014). Alternatively, if entrepreneurs lack legitimacy in a community, they can be motivated to actively assist prevalent institutions, in order to preserve their businesses in the face of any ensuing hostility(Lang *et al*., 2014; Welter, 2011). Again, as in more extreme conflictual situations, institutional voids of various kinds may foster negative forms of entrepreneurial behaviour, if the prevalent institutions are dysfunctional or corrupt, but only as far as the informal institutions of society allow, in terms of legitimacy. As Baumol (1990:987) notes, conflict can tilt incentives in a society for talented entrepreneurs to engage in counterproductive illegitimate activities that can lead to an underdevelopment trap, if violent conflict becomes significant and persists. Mehlum*et al.* (2003) too, show how a poor country can become trapped in low development as a result of the misallocation of entrepreneurial talent towards what they term 'predation'. In their model, an entrepreneur must make a choice between becoming a 'predator' or 'prey' (i.e. a producer). In very dysfunctional settings, entrepreneurship may be expressed negatively, for example profiteering, or inflammatory behaviour that is fuelled by, and also contributes to conflict rather than seeking to create more constructive value elsewhere (Abdukadirov, 2010; Baumol, 1990; Bruck*et al.,* 2011; Canares, 2011; Naude, 2007). A few studies have examined this negative side of entrepreneurship in conflictual regions (Addison, 2001; Bennett, 2010; Collier, 2006; Cooper, 2006; McDougal, 2010). Generally, these studies have been located in 'frontline' war situations, and refer to such situations as trading with troops on active service. Welter and Smallbone (2011)point out that entrepreneurs must also look to what happens when the war or conflict ends in terms of their ongoing need for legitimacy. Of course, not all entrepreneurs

react in the same way to institutional pressures, but are influenced by complex interactions of many factors (Peng, 2000; Sutter *et al*., 2013; Welter and Smallbone, 2011).

From an institutional perspective, the intermingling of formal and informal institutions in Pakistan, aligned with the potential for sudden disruptive change presents a high degree of uncertainty for entrepreneurs. The uncertaintybrings questions over how entrepreneurs should develop and present their businesses in terms of legitimacy (Lounsbury and Glynn, 2004) where what is legitimate today, may not be legitimate tomorrow, if there is a sudden institutional shift. This circumstance brings with it the need for 'institutional work' (Suddaby and Greenwood, 2005), whichJennings *et al*., (2013)see for entrepreneurship as a set of complex, entwined social processes where actors take on multiple roles and respond strategically and reflexively at the micro level. To do so, they use methods such as bricolage (Baker and Nelson, 2005), managed narratives (Suddaby and Greenwood, 2005), local negotiation (Maguire and Hardy, 2006) or practice development (Jarzabkowski, 2005). Maguire and Hardy (2009) introduce the concept of 'defensive institutional work', which may be necessary when outsider-driven de-institutionalisation takes place, referring, in their case, to an environmental shift. Inherent in these studies is the notion of agency, where entrepreneurs not only react to institutional pressures, but through their actions, may themselves reshape, or attempt to reshape, prevailing institutions.

The situation occurring in Swat, seems to fall between two areas of study – not all out war, but more than economic upheaval caused by restructuring; rather, an ongoing conflictual situation with intense clashes of cultural values and societal norms that result in sporadic violence, that could continue indefinitely, or be ended by another period of war and displacement for civilians.Sutter *et al*. (2013) refer to an intermediate situation where semi-formal illegitimate

institutional arrangements pertain but are enforced by coercion, referring to gang dominance in Guatemala. Here, illegitimate actors create rules for economic activity, exercise power through coercive means, and even extract 'taxes'. Consistent with Oliver (1991), entrepreneurs acted to defy, avoid or acquiesce to the situation in which they found themselves. Defiance involved the protection of physical space; avoidance involved changes in business model or moving the business to avoid exposure to illegitimate actors;acquiescence referred to complying with demands, or in some cases terminating the business. Sutter *et al*. (2013) argue that defiance and avoidance incur cost and risk, but offer more legitimacy in the wider community than acquiescence, which may aid their survival long-term if the conflictual circumstance ends (Welter and Smallbone, 2011). Their study links strategies of defiance and avoidance with strong networks, where entrepreneurs can leverage these ties to a form of collective resistance, demonstrating a purposeful effort to change the situation (Seo and Creed, 2002) and a more agential view of institutional theory (Welter and Smallbone, 2011).

Sutter *et al*. (2013) note that groups like the Taliban create institutional arrangements that are not accepted by many in the population, but are nonetheless formalised to a degree. That assertion seems reasonable, though these authors also point out as a limitation of their study that there is likely to be significant variation in different settings. It could be argued that the Swat valley circumstance is different to those in regions afflicted by gangs or organised crime. This is because in Swat, the aggressors are attempting to re-embedinto relatively sound formal institutions, religious and cultural norms that have had held significance historically for the population as a whole for generations, and may still be desirable for at least some of the population, to differing extents. The distinction of what is legitimate behaviour is thus less clear cut; additionally, there is the hope that, given the involvement of the armed forces, and

government, that the situation will end soon, and that the prior institutional situation can and will be rapidly reconstituted.Of course, ongoing uncertainty remains.

As in almost all countries, the formal legal and financial frame governs venture development through laws of contract, taxation and bankruptcy, and that remains in place in Swat, but Williams and Shahid (2014) remind us that many organisations are unregistered in Pakistanand even those that are registered may nonetheless have significant areas of informal operation. Typically this is to avoid taxation and government interference of various kinds. Such institutional gaps of course, allow for arbitrary actions on the part of both business owners and officials, which can lead to entrepreneurial opportunities for those who spot new possibilities, particularly in fast-changing environments (Welter and Smallbone, 2011). Of course that may not necessarily benefit the wider community, and indeed such opportunities may be transient, which might present a challenge to legitimacy long-term. Generally, as Chemin (2010) notes, this*modus operandi* has led to a challenging climate for SMEs and entrepreneurs generally in Pakistan, and this would likely still pertain for businesses in Swat that survived the initial disruption. They may persist, but in an environment where displacement of people as workers and customers presented an additional challenge, alongside disruption to transport and other infrastructural business needs and processes.That could happen in any conflict zone, but distinctive to this region has been the severe intensification of the existing cultural institutional norms around gender and religion, which may now be enforced though violence and perpetuated through acts of retribution. As a result, formal and informal institutions are being forced into a process of co-evolution. This of course affects business and community life through increasing risk, fear and uncertainty on a day to day basis that casts doubt on the viability of a future in the Swat region, as well as severely curtailing the lucrative tourism industry.

Thus, in this study, through defining an ongoing conflictual domain, the study contributes to entrepreneurship in challenging institutional contexts that afford high risk (security and business), ongoing uncertainty, and concerns over what is legitimate behaviour – or not.Given the exacerbation of existing tensions between formal and informal institutions, and the introduction of new tensions, the question arises as to how entrepreneurs are coping with the new institutional context.Managed narratives have been used elsewhere (Hardy and Maguire, 2009), as have different business strategies (Sutter *et al.*, 2013). For entrepreneurs, Spedale and Watson (2014) suggest thatthe habits of learned behaviour need to be reshaped to fit the new institutional setting, while Peng (2000) cautions us against rigid categorisations of responses. Smallbone and Welter (2011) note that not all entrepreneurs react the same way, suggesting three main groups of factors as important influences on entrepreneurial behaviour: contextual, venture and person-related factors.

In summary then, this study addresses the overarching research question, that is, how are firm owners orienting their entrepreneurial behaviour to remain legitimate in the conflictual institutional landscape that shapes their context? Thus, 16 SMEs are examined, who present different responses to the common institutional context of the Swat valley conflict. It will be useful to see if there are different responses (Peng, 2000; Smallbone and Welter, 2011) and if so, how habitual behaviour is being shaped by the new institutional setting; further, whether the responses identified by Hardy and Maguire (2009) and Sutter *et al.* (2013) are also identifiable within the entrepreneurial behaviours studied in the shifting institutional logics of this region. Theoretically, we contribute to knowledge around the relationship between entrepreneurship, institutions and legitimacy. Practically, it is useful to know more about behaviours that are seen as commonplace in entrepreneurs such as strategy development,

opportunity recognition, networking, risk management and innovation (Chell, 1985), are grounded in this institutional context that sits somewhere between war (which is very difficult to research) and economic upheaval. Recognising, as Welter and Smallbone (2012) point out, that these commonplace terms may well be interpreted differently in this regionwill provide insight into how such behaviours might be nonetheless harnessed towards success, and what support mechanisms should be in place.

Methodology

This study is qualitative, carried out through semi-structured interviews with the founders of 16 small firms. At the outset, a local trade association was contacted to obtain information about suitable firms, and to connect with the owner-managers of the firms, that is, the individuals who manage day-to-day operations and also determine the strategic direction. Using this route meant that registered firms were contacted with a relatively high degree of formality and therefore visibility (Williams and Shahid, 2014).

The interviews were taken in August 2012, five years into the actual conflict. All 16 entrepreneurs were interviewed twice by one of the authors. The longest interview was approximately three hours and the shortest one around one and a half hours (in person in the Swat valley). All 16 firms were visited, with 15 of the interviews taking place at the firms. One was interviewed at his home, because it was a fasting month and he preferred to do this in the evening. Since then, there has been regular informal follow-up contact with 16 entrepreneurs who are both still in business in the Swat region.

The content of the interviews was guided, but not determined by theory and consisted of focussed discussions with the respondents. The participants were asked sequentially about the history and antecedents of the business, their own perceptions of how the business was doing,

their management and business development strategies and the impact that the ongoing conflict had had on them and the business. Topics that had the most relevance to the conflict situation, such as changes to opportunity seeking behaviour, networks and perceptions of risk occurred throughout the interview and were followed up as they occurred, to maintain the flow of the conversation and benefit from the enthusiasm of participants to discuss these areas. References to institutional elements such as the Taliban, the army and the religious climate were also followed up, as they occurred. In this way, it was possible to connect the behaviours at the individual/micro level to the institutional macro-level context in which they were embedded. The interview schema was therefore a fluid guide that was directive, but not prescriptive, of the detail within areas probed by follow-up questions within the interviews. Although the interview as not piloted formally, after each interview, a process of reflection was carried out as to whether the overarching strategy of the interview was appropriate, and which follow-up questions had been most useful. This informed the content of the next interview; no changes to the overarching strategy were made. The conduct of the interviews was guided by Easterby-Smith *et al.* (1991) who suggest the use of exploratory probes, silent probes and mirroring, to acquire a clearer vision of the issues that are explored. The exploratory probes that use what, why and how questions aim to reveal the reasons why the interviewees hold particular view points on issues that are of a high relevance to a study (for example, institutional change). The silent probe is a pause that is used during interviews to persuade the respondents to keep on following the line of their arguments and providing more information. Mirroring refers to repeating back what an interviewee has just said, to elicit confirmation, or follow up information. The above probes were used during the interviews to discover the particular view-points held by the interviewees on the issues raised by the questions in this study.

Table 1 shows the descriptive attributes of the businesses.Whether they perceived themselves as successful or not, was also recorded. Given the degree of informality of businesses in

Pakistan (Williams and Shahid, 2014), these perceptions of success were not tested against a quantitative evaluation, as such records would be hard to access, and further insistence could potentially damage trust.

Patton (2002:391) warns that "*cultural inquires add layers of complexity to the already-complex interactions of the interview*" Patton suggeststhat researchers should take special care when interviews need an interpreter or translator. In this study, the issue was alleviated, as the interviewer belongs to the same culture, andis a native Pashto speaker too, in common with the interviewees. Thus, all the interviews were conducted in the native language Pashto, recorded, and transcribed into English. Questions and themes designed for the in-depth interviews were translated from English to Pashto by the interviewer.Special attention was given to transcribing the data, because it is a key phase of the data analysis within interpretative qualitative methodology (see Bird, 2005). Transcription is recognized as an interpretative act, where meaning is created, rather than simply a mechanical act of putting spoken sounds on paper (Lapadat and Lindsay, 1999).After the interviews, the Pashto versions were translated into English by listening to the recorded interviews either two or three times, depending on the complexity of the language used. An English Language teacher colleague from Jahanzeb College in Swat confirmed the translation, by reading the transcript alongside the recording. Guidance was also taken from a colleague witha Masters degree in Pashto Language,to provide detailed guidance about language-related themes.

Insert Table 1 about here

Turning to the analysis, initially, one of the authors, a native speaker, listened to the interviews from the digital recordings, familiarizinghimself with the data, taking notes during the listening. Each interview was listened to twice, going back again to sections that were of particular interest. After consulting with language experts, all the interview data was transcribed into the written English form in order to conduct more detailed qualitative analysis.A deductive approach was taken to the analysis, following Miles and Huberman (1994). In this study, the analysis focussed onfive behavioural factors: perception of success, strategy development, networking, opportunity seeking, and risk taking. The categories followed the areas that had been the basis of the interview questions; we examined the transcripts within the categories for comments and discussion that had specific relevance to the conflict situation and any institutional references. In doing so, it is recognised that the questions asked to respondents already have an associated meaning selected for the study (Edwards and Lampert, 1993). While this approach enables focus and a systematic generation of new knowledge, this could be considered a limitation, as the focus might shift away from the respondents' suggestions of other emergent categories. However, great care must be taken to avoid forcing data intothese categoriesjust becausethey had been created at the outset (Miles and Huberman, 1994). Thus, other categories were considered; one which did emerge from the data, is that of weak agency towards institutional change, where the participants were trying, through their business activities, to contribute to reshaping depleted institutions, at least at local level.

Findings

Perception of success:

The firms in this sample seem to have defied the institutional logics of the conflictual situation, and could all be considered successful to some extent. Their businesses have persisted during the conflict, remain in profit, and, in some cases are expanding, even potentially overseas. In

many ways, they conform to common patterns of small business. They scan new opportunities to diversify their businesses. They describe themselves as constantly engaging with customers to know their tastes and preferences.Nevertheless, some entrepreneurs perceived their firms as unsuccessful, even when the firm was in profit, pointing out some major issues that were related to the conflictual context. Some of the successful firms had negotiated with the Taliban (not all of them said this, though perhaps they did not want to admit to it). Tellingly, none of the firms who described themselves as unsuccessful had negotiated with the Taliban. Being 'unsuccessful' was related to outcomes such as the downsizing of the firm due to security and curfew issues impacting on networking and communication channels. One stated that. "*Frequent curfews have broken our communication with customers and I think is also one of the main reasons for struggling*" (Entrepreneur 7). Being unsuccessful was also related to the condition of being unable to innovate for growth due to uncertainty. In 2012, Entrepreneur 16 stated that, "*My first strategy is that I am going to change my firm's location, because the existing location is not safe*". To date, he has not done that however, continuing to exist in a state of uncertainty.One entrepreneur stated, "*The most important factor for business success is a safe environment, because due to security reasons firms have closed in other parts of the region…..when we were displaced from the Swat regions, terrorists attacked our factory and we made a huge loss*" (Entrepreneur 11). This entrepreneur had stabilised financially, that but did not see that position as feasible in the long term. While they were surviving without collaborative acquiescence, this group perceived their ongoing situation as dangerous; they did not co-operate with the Taliban, either because they did not want to or had not seen the need to until it was too late. Overall perceptions of success were related not just to economic norms, but to fears around security, which in some cases were related to their status with the Taliban.

Strategy development:

Some entrepreneurs have succeeded in financial terms, and, importantly, in their own terms, through a proactive strategy where they quickly acquiesced to the aggressors. Further, they actually saw opportunity in the conflict: "*We have taken the risk to run a business in a conflict environment, but our customers have increased because some firms have been closed, which decreased the competition level in the region and I think this has had a positive impact on us*" (Entrepreneur 3). When he was asked about his entrepreneurial capability during the conflict environment, he replied "*I couldn't lose my motivation and courage, because I know how to handle difficult situations*" (Entrepreneur 3). Thus, he concluded that during the conflict period they earned profit, gained bigger market share; and made valuable contributions to the local community, thus offsetting the potential criticism that overall he was contributing to a negative situation. Entrepreneurs who took this course of action attributed that success to their ability to quickly read the situation, and make a strategy based on compromise and negotiation for a particular moment in time. The alternative would have been to close their businesses, which was a driver to overcoming any qualms about this course of action. Of course whether that compromise affects business legitimacy in future, remains to be seen.

An alternative strategy seen as successful was to move swiftly in collaborating with firms outside the region, which led to an overall improvement in competitive position, for example, "*we were able to take up an offer from a firm in Lahore who offered to do our production using their machines, this helped us to maintain our growth and keep our customers*" (Entrepreneur 2). This avoidance strategy, though successful in the short term,would mean that fewer jobs would be created in the region,

Networking:

Networking was linked to the ability to deal with the conflictual circumstance, particularly through avoidance strategies: "*Cooperation with each other can help you to handle difficult situations, for example, I would like to say that since the beginning we have had a good relationship with other firms, and when the war on terror started and people were displaced from their houses, the majority factories were closed and there was no communication, but due to our good relationships with other firms, particularly outside the Swat regionwe were able to take up an offer from a firm in Lahore who offered to do our production using their machines, this helped us to maintain our growth and keep our customers*"(Entrepreneur 2).

Entrepreneurs who saw themselves as unsuccessful referred to depleted networks: "*Cooperation amongst firms is very important, particularly in places like Swat Valley where the government support is zero. This is the only factor which is very important for us; our cooperation was very good three years ago, but due to the conflict situation, we lost our communications. Another important issue is that some firms closed their branches, which ultimately affected our cooperation*". (Entrepreneur: 15)

Where this occurred, it was difficult to bring innovative products to market: "*due to the war on terror issue, we lost our communications channels and people do not want to come to our region due to security reasons*"(Entrepreneur 11). It was difficult to restore the networks: "*we are currently working in a danger zone and it is not possible to take any steps regarding business success*". because "*there are so many military check posts in our region and we are scared that any time suicide attacks could happen….those people who live in Peshawar do not want to come here, because they think that they are not safe in our region*"(Entrepreneur 10).Trust restoration across the network was also an issue that emerged towards the end of this study as conditions stabilise: "*The first strategy we are currently trying to achieve is restoring*

the trust of our distributors, because they are thinking that conditions in the region are not 100% safe and they do not want to come" (Entrepreneur 5).

Opportunity seeking:

The closure of some firms led to opportunities for some, but not others, and was related to strategic action, particularly where a firm perceived themselves as successful: *"We have hired a sales team to deliver our products to other markets, because in some areas, particularly in upper Swat, there are opportunities, because some firms have been closed due to the conflict situation"* (Entrepreneur 2). In these cases, the conflict itself was a source of opportunity, at least in the short term, particularly where swift action had been taken to fill a market gap. In contrast, firms who perceived themselves as unsuccessful related the process of scanning for opportunities to a safe environment, experiencing a context constrained by the security situation arising from the conflict. For example, one entrepreneur from an unsuccessful firm says *"Our [opportunity scanning] is related to the law and order situation, for example, currently there are opportunities in the market, but the conditions do not allow us to scan them"*. (Entrepreneur 8).

Risk-taking:

As stated earlier, entrepreneurship can be a struggle in Pakistan at the best of times, through straightforward economic reasons: *"The biggest risk for us is the inflation, because in Pakistan the inflation rate is increasing every day and the people have low purchasing power"* (Entrepreneur 16). Yet all theparticipants pointed out that operating their businesses in an uncertain, conflictual environment was their biggest risk. As one entrepreneur notes, there may be increased risk but *"I have taken the risk to run a business in a conflict environment, but my customers have increased because some firms have been closed, which decreased the*

competition level in the region and I think this has had a positive impact on us". (Entrepreneur: 4). However the situation is still dangerous and as Entrepreneur 2 shows, negotiation can only take you so far. He categorized risk in two ways. The internal risk, for instance fluctuation in turnover, unavailability of raw material, he could handle effectively through negotiation: "*the strategy I used during the conflict, at the time when it was at its worst, was consulting with the Taliban, because they were in the areas with raw materials and this strategy gave me benefits*". But external risk, in this case, the law and order situation of the Valley, was hard to manage, as he recognised, because "*it is very risky to work in an uncertain environment, because you do not know what will happen tomorrow*". While a co-operative, acquiescent strategy had worked successfully thus far, he expressed deep concern about the current problems which still present a high risk for his business, through the uncertainty and volatility of the situation overall.

Weak agency

Outside this study, some individuals in the community have actually got caught up in conflictual activities, which caused sadness and disappointment for the participants in this study. As a result, some saw their businesses activities as potentially contributing to reconstruction and reshaping of the institutional context, thus demonstrating what was characterised as 'weak agency'. For example: "*I personally work with some NGOs to bring peace in our region; therefore, I always work with them to organize peace seminars and I think it is my biggest contribution*" (Entrepreneur 8) and "*If we get proper security, I will be able to open new branches and will employ those people who used to work with terrorists. I think I can make this contribution to peace*" (Entrepreneur 14), and "*I always support employee schemes to help existing employees and hire poor workers and particularly those people who used to be involved in terrorist activities*"(Entrepreneur 9), while recognising that support would be necessary "*If we get the necessary support, I will open a branch in upper Swat where*

the terrorists entered"(Entrepreneur 1)and "*The main reason of terrorism in our beautiful land is the lack of education. If I get the necessary support, my future contribution to peace is to give a proper education to my workers and give them the support to open their own businesses*"(Entrepreneur 5). Others expressed a deep-seated liking and loyalty towards a better future for the region, "*In my view, the most important contribution I make to the region is that I am from Lahore, but I personally like the Swat region, because the people are very nice and I do not want to move my business, because such mobilization will encourage terrorists*" (Entrepreneur 16).

Discussion

Summarising the findings above, in the participants studied, there is much evidence of entrepreneurial behaviour that is easily recognisable and driven by economic norms: the need to be profitable,the need to spot new opportunities and new markets and to manage economic risk. Indeed, all the participants in the study have persisted through the conflictual stage with firms intact and in profit. Alongside that though, not unexpectedly, as Welter and Smallbone (2012) suggest, thosemicro-level behaviours were shaped by the uncertain, insecure, and at times coercive institutional context, which frames the decision of where to operate geographically, how to leverage networks, what constitutes an opportunity and perceptions of risk and personal security.As Peng(2000), Sutter *et al*. (2013) and Welter and Smallbone, (2011) point out, not all entrepreneurs react in the same way to institutional pressures, and this has been the case in this study. It is clear that the participants were influenced by complex interactions of many factors, including family history, business background and the geographical composition of their networks, as well as their interactions with institutional forces. As Bullough*et al.* (2014) argue, resilience and self-belief play an important part in entrepreneurial achievement in conflictual contexts. However, perception depends upon the entrepreneur's resources and the surrounding institutional environment, particularly when there

is coercion or a threat to security for themselves, their business or their families. Thus, economic success for some, was compromised by depleted networks and question marks over future growth, and more importantly, safety, which led them to feel unsuccessful overall.

In the main, strategies of avoidance, or acquiescence (negotiation and collaboration) have been adopted, rather than defiance (Oliver, 1991; Sutter *et al.,* 2013) to achieve persistence of the firm. Those who saw themselves as successful had in some cases secured success by negotiation strategies (Hardy and Maguire 2006, 2009) either with the Taliban, or with locals in high risk areas, or perhaps both, to secure new markets, achieving a degree of legitimacy with those concerned in the locale as they did so. In some cases, they saw their ability to act in an agile manner, leveraging their networks to operate in this way as a measure of their skill and entrepreneurial acumen. Others practised avoidance strategies (Sutter *et al.*, 2013), leveraging opportunity from networksoutside the region, thus creating an alternative kind of legitimacy, decentred from the conflict zone.As Hardy and Maguire (2006, 2009) suggest, managing narratives is important in the negotiation of legitimacy in a conflictual institutional climate; this must be handled effectively not only with the aggressors (through collaboration or acquiescence strategies), but also with wider business networks and the local community, to achieve stability, at least for a time. Some entrepreneurs enacted weak agency in an attempt to reshape the institutional future, working at the micro-level towards peace through their businesses employment strategies for example.

The research question for this study was,how are firm owners orienting their entrepreneurial behaviour to remain legitimate in the conflictual institutional landscape that shapes their context? It is clear that the institutions do present difficulties for the entrepreneurs. As noted by Williams and Shahid (2014) there is limited confidence in formal institutions in Pakistan,

and entrepreneurs in the country generally have become accustomed to a certain fluidity and informality of practice, particularly as distance increases from urban centres, such as in the Swat Valley (Nouman, 2011). Insurgency has compounded this existing difficulty by causing a phase of de-institutionalisation/re- institutionalisation, where the programme of a political movement founded on powerful religious values has been set in place by force – a process then reversed by the intervention of armed forces. Despite this turbulence, there were those who had the capability to organize productive strategy and exploit opportunities (Aguilar, 2004; Naude, 2009; Naude and Rossouw, 2010), with conflict itself presenting new opportunities.This is perhaps not too surprising. Pakistan's journey to a more secular, liberal state is questionable at the best of times, as the traditional norms and values of strong religious institutions still hold an appeal for some, and an opportunity therefore in Swat for a cultural legitimacy, despite the violence which has occurred. An insurgency of this kind, as Welter points out, provides an institutional void that can lead to activities and alliances that might be seen by some as undesirable (Baumol, 1990; Welter, 2012). Yet, in adopting an acquiescent strategy (Oliver, 1991; Sutter *et al*., 2013)through negotiation (Hardy and Maguire, 2006, 2009) however,entrepreneurs are able to preservetheir family history, their business and employment and trade in the Swat region and beyond; assuch, they considerthemselves as having done good in the community overall. The pressure to conform to shifting institutions in the face of such embeddedness, and a severe security threat, is very strong. The question then, consideringMehlum*et al*. (2003) and Baumol (1990), is whether such a strategy might only have short term benefits. At the family business level, once the conflict is over, will connections with the Taliban count against them, or will the local community accept that such expedience was necessary and indeed desirable if at least some jobs and stability were preserved. In terms of the low development trap, these strategies, if repeated by many SMEs, might result in the insurgency lasting longer than it might otherwise, which might have a

negative impact on the region overall. Of course, such entrepreneurs may be very skilful at reconfiguring their resources swiftly to whatever the future holds, and demonstrate the tenacity of entrepreneurship through cyclical variations in institutional conditions(Bullough*et al.,* 2014; Ciarli*et al.*, 2010). Those who are adept at generating narratives with the Taliban may well be skilled at re-working those narratives to fit a new context*later on*(Hardy and Maguire, 2006, 2009); this would be a useful avenue for future research. A similar research question would apply to those who had instead chosen to legitimise their activities outside the conflict zone. Another area that might benefit from quantitative research is the motivation behind behavioural choice, which results, in this study, from complex interactions of many factors, including family history, business background and the geographical composition of their networks. There is evidence for weak agency around longer term objectives such as better education and prospects for those who become (or may become) involved in violence (Welter and Smallbone, 2011, 2012). Longer term research would be needed to establish this point.

From a practical point of view, the study confirms that entrepreneurs react in different ways to institutional pressures (Welter and Smallbone, 2011), raising different questions over legitimacy, for the present and also for the future, should the institutional climate change. Better understanding of the connection between legitimacy and entrepreneurial behaviour may aid policymakers and business support organisations in the region. It has also been shown that while strategies of acquiescence, avoidance and negotiation prevail, there is the potential for weak agency to reshape institutions, which policymakers and regional governance structures should encourage.

Finally then, this study has contributed to the growing body of literature on entrepreneurship in conflict environments (Roberts, 2010), which is still a relatively underexplored area

(Boudreaux, 2007; Bruck *et al.,* 2011, 2015; Ciarli, 2010).Through concentrating on embedded agency in relation to institutional contexts, the body of literature developed by Hashi, (2011), Maguire and Hardy (2006), Sutter *et al.*, (2013),Williams and Shahid, (2014), Williams and Vorley, (2014) Welter and Smallbone (2011, 2012)is extended to the conflictual context which is neither all-out war, gang dominance, nor economic restructuring. The subtleties of establishing legitimacy through different entrepreneurial responses have been demonstrated; the theoretical implication is that this is a useful area to pursue further given the dominance of studies that have focussed on the macro level thus far (Collier, 2006; Cramer, 2006). The study also contributes to the literature on entrepreneurship in Pakistan (Chemin, 2010; Williams and Shahid, 2014; Williams and Vorley, 2014). The results may also be useful where there is a similar institutional climate, Afghanistan for example (Binzel and Tilman, 2007; Bullough *et al.,* 2014; Justino, 2008).

Conclusion

In conclusion, this study has provided empirical evidence on what strategies entrepreneurs adopted to achieve success and how success can be perceived very differently in conflictual contexts. This context is distinctive due to the deeply embedded religious and cultural norms that are dominating the institutional climate, formal and informal, at least for now. In taking an institutional theory perspective, the study has provided conceptual underpinning for providing new knowledge in the rarely-studied zone between all-out war and economicturbulence. In doing so, avenues for further research have been identified. Of course, these results come from a small number entrepreneurs and one particular location in the Swat Valley of KPK province of Pakistan, so inevitably that is a limitation on the generalizability of the results.

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[i] As distinct from the Afghan Taliban

[ii] http://www.independent.co.uk/news/world/asia/islamist-protesters-call-for-sharia-in-pakistan-after-salman-taseer-blasphemy-row-a6956896.html