

Final draft version

Ritchie (2016) 'At the frontier of economic development: Unravelling institutional change in fragile environments' in P. Knorringa and G. Gomez *Institutions, local governance and economic development*, Palgrave. (Chapter 11, p. 216-239)

After all, the ways economic activities are organised, and the ways they link up with other institutions provide crucial ingredients of the setup of the whole social fabric. I do not think one is exaggerating by suggesting that understanding them better will give us also a better understanding of how contemporary democratic systems work, and also better ways to preserve and defend them. (Dosi 1995: 15)

This chapter explores the fundamental question of how institutions change in fragile environments, going beyond the assumed tabula rasa in neo-institutional theory towards appreciating more nuanced outcomes, and their influence on economic development. In the market arena, there are powerful institutions that define who participates and the scope of that actor interaction. Drawing on Chang (2002), empirical research has sought to appreciate the causal structures and dynamics within firms and in the local environment, departing from the conventional focus on the power between firms and profit distribution. Using a case-study approach, research specifically examined the development of institutions (or 'rules') in women's enterprises in Afghanistan through the lens of a critical social institution, women's *pardah* (Ritchie 2013). Manifested by segregation, seclusion, modesty, and coveredness, the traditional practice of *pardah* determines the scope of women's mobility and social interaction (due to the pressure to avoid being seen by non-family men), and shapes all potential aspects of their social and economic lives (Doubleday 2006). In the transformation of *pardah*, and subsequent formulation of enterprise institutions, the research indicates the embedded nature of rule development, and the interaction of diverse actors. These actors influence both the process and nature of emerging rules – including degrees of openness and flexibility – shedding new light on the institutional change process.

Taking an innovative focus on structure and agency (Hodgson 2004), the qualitative research looked in particular at the uncertain role of entrepreneurs and other key actors in fostering new institutions to engage in enterprise and markets, and at shades of initiative along a continuum to evolving institutions. The central themes of markets, tradition and power resonate as both relevant and significant in the volatile and informal research context of Afghanistan. Instability appears to be (almost) institutionalised in the society, with conflict shown to have a limited impact on the prevalence of enterprise activity (Ciarli et al. 2009). In the absence of a strong state, traditional cultural practices, social networks, and uncertainty drive market functioning, actor behaviour, and the scope of business development in Afghanistan (Ritchie 2012). Baumol (1990) suggests that the quality and scope of entrepreneurship may have varied outcomes for economic development, and distinguishes between productive, unproductive and destructive activities. In this fragile and conservative Afghan environment, gender norms govern women's productive activities and economic engagement.¹ In particular, strict interpretations of purdah – as common for middle-/lower-class Afghan women – tend to confine the women to the household, influencing women's social movement (even between households), access to services and resources, and market interaction.

Drawing on the research cases of women's businesses in Afghanistan and in-depth data and analysis, this chapter endeavours to elaborate and advance key arguments on institutional change. I discuss core drivers of institutional processes, and the role of actors (and their interaction). I examine new empirical insights supporting/challenging existing theories and propositions. I consider why we are interested in the role of institutions in enterprise and local economic development. Finally, and more generally, I reflect on the research for institutional theory, and highlight the critical value of interdisciplinary work, straddling anthropology to economics to generate pertinent insights into institutional development and broader processes of democratic change in human society.

1.1 The ubiquity of institutions shaping economic development

There is still much debate over the nature and emergence of institutions, the relations between them, and their impact on economic

development. Three main approaches have been posited which attempt to explain the influence of institutions on the economy, and the process of institutional change and development. An early perspective emerged at the turn of the 20th century, known as (old) institutional economics, and this has seen a recent revival in light of broader discussions in the social sciences. Meanwhile, in the last three decades, the neo-classical economics-based approach, new institutional economics (NIE), has tended to dominate economic thinking. Finally, drawing attention to theories of embeddedness and social relations, economic sociology has also been developed, chiefly in reaction to the textbook ideals of NIE. Douglass North famously defined formal institutions (that is, laws, constitutions and regulations) and informal institutions (that is, unwritten norms, customs, conventions and moral codes of conduct) as the ‘rules of the game’ (North 1990: 4). Viewing institutions as ‘constraints’, he described these as the framework structuring human interaction, and the incentives and disincentives to behave in certain ways. This included the rules themselves, enforcement mechanisms, and norms of behaviour. Incorporating evolutionary ideas, and moving towards a more balanced social perspective, Hodgson (2004: 424) has redefined institutions as ‘durable systems of established and embedded social rules that structure social interactions ... [that] both constrain and enable behaviour’. This firmly situates institutions in the social realm and indicates their interrelations.

1.1 Beyond rationality and efficiency: influence of culture, power and habit

Neo-classical economists have tended to assume efficiency objectives and reducing uncertainty as spurring institutional change and development. Towards a more nuanced approach, broader institutionalist scholars such as Lanzara (1998) and Johnson (1992) highlight the importance of ‘societal inertia’ (the durability of norms, rules and values) as providing the basic stability necessary for (path dependent) institutional change (Hollingsworth 2002: 7). Yet at critical points in history, there may be shifts in the equilibrium (Somit and Peterson 1992). Battilana et al. (2009: 74) describe the enabling role of dramatic events, such as social upheaval, technological disruption, competitive discontinuity, and regulatory changes that might upset the status quo and allow the generation of new ideas (Child et al. 2007, Fligstein 1997, 2001, Greenwood et al. 2002, Holm

1995). Chang (2002) draws attention to power structures (and history) as shaping actor behaviour. This perspective contrasts with NIE, which narrowly views actors as rational and independent, maximising their utility, with preferences set as exogenous and steady. From organisational studies, the role of change agents ('institutional entrepreneurs') has been particularly emphasised (Battilana et al. 2009), and as indicated by value-chain literature, individuals who may be external to the system (Helmsing and Vellema 2011). And disputing single optimum outcomes, Hollingsworth and Boyer (1997: 3) draw attention to the existence of diverse institutional arrangements, with different degrees of agent interest and power, influencing actor 'needs, preferences and choices'. Crossing into the field of management, Koene (2006) highlights the varied influence of the context – affected by local pressures, societal confidence, and agent power – and the potential behaviour of agents affecting institutional change and outcomes. This has drawn attention to agent interests and preferences. Similarly, Maseland (2011) argues for a greater appreciation of institutions within their institutional context, and for ensuring a dynamic perspective of societal evolution and interaction through the lens of the country concerned.

Taking a step closer to the original institutional discourse, several prominent economists explore an evolutionary approach to institutional development and change. A major contribution to economic thinking has been in the insights generated into the role of habit (Hodgson 1997, 2003, 2004, 2007), which is described as the 'constitutive material of institutions, providing them with enhanced durability, power and normative authority' (Hodgson 2004: 425). Towards understanding the emergence and modification of habits, Hodgson (2003) examines the way that institutions subtly influence individual habits and dispositions in an innovative concept called 'reconstitutive downward causation'. Institutions are thus deemed not only to inhibit and enable behaviour, and to be dependent on the activities of individuals, but also to influence and shape individual habitual dispositions, which, in turn, can modify individual understandings, purposes and preferences.

Today's broad institutional discourse rechallenges conventional views by arguing that economics cannot be separated from the social, political and cultural systems in which it is embedded. This points to a greater appreciation of non-economic forces in

institutional processes, going beyond the narrow notions of efficiency, functionalism and rationality. This has included the influence of culture and power in institutional emergence and design, the evolutionary nature of informal institutions (incorporating agents' habits), and the socially embedded nature of economic action. Social scientists now emphasise the existence of complex dynamics involving the interplay of structure and agency in institutional change (for example, Chang and Evans 2000, Hodgson 2004, Ostrom 1990). According to Hodgson (2000: 327), the most important characteristic of institutionalism is the recognition that individuals are indeed both 'socially and institutionally constituted'. Going beyond 'efficiency' outcomes, Chang (2005) highlights three critical functions of institutions that promote economic development: learning and innovation, income redistribution, and social cohesion. Yet the actual process of institutional change and development is still poorly understood, arguably constrained by little interdisciplinary exchange and reflection.

2. Exploring institutional change in a fragile context

Building on several years of field experience, empirical research adopted an exploratory and in-depth case study approach to generate a nuanced understanding of the process of institutional change (purdah), permitting women's engagement in enterprise in the turbulent context of Afghanistan (Ritchie 2013).² The research purposively selected women's businesses that manifested the phenomena of interest: institutional change (women's purdah) and institutional development (enterprise institutions). Research case studies included three women's business associations located in both rural and urban areas of Afghanistan, facilitated by NGOs: a food processing business association (Case 1a and 1b), a vegetable business association (Case 2a and 2b), and an electronics business (Case 3).

Using a critical realist approach, methods drew on a range of qualitative techniques, including ethnographic tools, semi-structured interviews, focus groups and observation with a multitude of actors, including the entrepreneurs, workers and their families, local councils and religious clerics, NGOs and civil society, and diverse value chain actors. The entrepreneurs were conceived to be the enterprise/micro-firm leaders. With the support of the NGOs, entrepreneurs were either selected by the local elite, or by the group themselves.³ Market

institutions/enterprise rules refer to intra-firm routines, marketing rules and collective action institutions between firms. Of the research techniques employed, it is particularly pertinent to highlight the ethnographic methods used to explore the perspectives of the women at the village level and those participating in the business.

Complementing interviews with NGO staff and entrepreneurs, and researcher observation, these innovatively designed techniques proved critical to further unravelling the intricacies of the role of key actors in institutional processes, particularly in delving into sensitive topics around culture, religion and local power.⁴ Such participation-oriented sessions permitted both relaxed and strikingly rich discussions, in a style that was arguably more suitable for less-educated women in low-trust contexts (these women were unaccustomed to interview-style questions and/or were afraid to speak out). Whilst varied in their effectiveness, the sessions generated deeper levels of understanding of the attitudes, perceptions and relations at the local level in the course of institutional change. In the subsequent data collation and analysis, the research drew on critical realist methodologies, such as those articulated by Bygstad and Munkvold (2011).⁵

2.1 Research case studies: women's businesses in Afghanistan

Driven by the goals of women's economic empowerment, in each of the three cases, NGOs were involved with initiating and supporting the target women's businesses, and played a key role in triggering institutional change/construction processes. In order for the women to participate in activities outside of the home, and ultimately, in group enterprise, in each of the cases, the associated NGOs were initially involved with the crucial reform of purdah. Before the project, target women were typically involved in homebound activities in their respective communities and pursued a strict form of purdah (with variations depending on age, marital status, and so on). These activities included domestic chores and child-rearing, and, in some cases, the production of basic handicrafts, tending basic kitchen gardens and harvesting perennial horticulture. Women were able to visit close family households, and to attend the weddings of close relatives. Some women were able to visit the local market with their *maharams* (male relatives).

The first case study examined a rural-based women's food processing business association, straddled across a network of thirty-six villages (with thirty-six groups or micro-firms) in the west of Afghanistan, and incorporating over 800 women (with two villages examined in this study, Case 1a and Case 1b). Supported by a local NGO, the expansion of cultural norms was fundamental to allowing selected women the mobility to leave their homes several times a week to attend initial meetings and training, and eventually to work inside the designated food processing centre in the village and engage in marketing. The heads of the village-level groups – the 'entrepreneurs' – had a mixed background of mobility, including a few educated women who had been involved in teaching and/or doing family errands. The rest of the worker women were more restricted; from middle- to lower-class families, they typically were almost entirely homebound in their respective communities. At the project's start, the NGO immediately put an emphasis on progressive religious education, to provide the initial foundation for new ideas around women's roles and mobility. Whilst the women's subsequent mobilisation and actual business establishment was a slow process, ultimately, the broader percolation of new attitudes and ideas on women's practices has not only permitted business engagement, but has also triggered more widespread socioeconomic change.

The second case study investigated a rural women's vegetable business association, situated across a network of nine villages (with a total of ninety sub farmers' groups organised into nine village level micro-firms) in central Afghanistan, incorporating over 2000 women (once again, two villages were examined for this study, Case 2a and Case 2b). This business was supported by a joint international/local NGO team (hereafter, the NGO). Similar to Case 1, the broadening of purdah was necessary to allow target women new degrees of mobility to attend group meetings and training (within the village) and to work more publicly on their family land. Later, the further expansion of norms was required for a few selected women to engage in marketing and city networking. As in Case 1, whilst the village enterprise heads (the entrepreneurs overseeing ten farmers' groups in each village) may have had some degree of mobility, the rest of the women were typically only involved in homebound activities in their respective villages. After stumbling on cultural boundaries, specific emphasis was placed in this case on NGO staff working through designated village 'champions' (charismatic elders who supported the project),

and channelling new technical skills (accelerating the visible economic benefits of new practices). Once again, over time, the new women's practices have not only permitted business development but have also triggered new ideas about women within the community, particularly in Case 2a, though less so in conservative Case 2b.

Finally, the third case study was of a small urban-based women's electronics business situated in the city of Kabul, supported by an international NGO, with just thirteen women. Using parts from local markets, the women assembled products, including solar lamps, circuit boards and extension cables. Once more, the broadening of norms was crucial to allow the women the mobility to attend regular meetings and training within the community. Later, further negotiation was required for women to work in the designated centre in the community, and eventually to travel to the middle of the city for work (at a more formal workshop in a women's commercial area). The lead entrepreneur had a fairly limited background of mobility but came from an open-minded Tajik family. Meanwhile, significantly more restricted, the other worker women came from middle- to lower-class Pashtun families with very traditional views about women. Similar to Case 2, the NGOs identified local community champions to liaise with elders and husbands, and strategically employed charismatic staff. Yet strong tribal codes complicated the nature and breadth of transformation, and this was further exacerbated by contextual uncertainty. This has constrained the scope of change, the women's subsequent business engagement, and the potential knock-on effects to their broader empowerment.

Whilst residing within the overall challenging context of Afghanistan, it is necessary to further unravel the particularities of the micro context in each case. In Case 1a, the local situation was considered relatively stable, yet there was a low level of trust between families and a (semi) conservative set of local authorities. In Cases 1b and 2a, the local situations were marginally more stable with good levels of trust, more dynamic livelihoods, and progressive-leaning local authorities. Meanwhile, in Case 2b, there was a sense of stability in the village, but not in Case 3, which was made up of displaced families, yet both areas suffered from low levels of trust and conservative authorities. In each case, much effort was channelled into the initial transformation of *purdah* (the allowance to leave the house on a regular basis to visit other parts of the community). The NGO led

this, in negotiation with the local community/area authorities ('power holders'), target households, and enterprise women. This transformation often took place over many months and required multiple village meetings and household-level discussions, with negotiations and tentative new practices frequently beset by local incidents, including intimidation of the women as new activities were started, and even threats to the NGO. The use of religious messages and the involvement of charismatic, progressive village leaders, as NGO-designated project champions⁶, proved to be notable strategies to garner local support. The lead women, or entrepreneurs, tended to have a greater degree of pre-project mobility, yet it was still limited to the community. For the worker women, however, there was a significant need to negotiate with family to simply leave the house. Later, further efforts were employed to facilitate women's engagement in joint productive work routines, marketing and collective action, and related rule development. This was once again led by the NGO, in negotiation with local village/area authorities and the target households, and over time, increasingly coordinated by the enterprise women.

2.2 Examining layered rules in emerging enterprise

Looking closer at emerging enterprise rules across the cases, at the primary level, internal production rules were initially developed by the NGO to clarify women's roles and routines in production and management. These were delimited by both the women's capacity and permitted mobility. As indicated by Becker (2004), these routines permitted coordination and control, a reduction in uncertainty, and cooperative action. Yet, their regularity also facilitated professionalism, reinforcing the women's credibility as enterprise workers (with their families and in the community). Meanwhile, the entrepreneur largely led revisions in the routines – tempered by the context and power holders – and influenced the evolving roles of other women and strategies for expansion and growth. In low-trust environments, the entrepreneurs maintained strict control, particularly the less public-spirited entrepreneurs, which affected their natural potential development (as in Case 3). The secondary level of enterprise rules ('chain rules') aimed to clarify selected women's external responsibilities, and were related to physical marketing and the procurement of inputs. These rules were directed at designated, more mobile and respected women (and thus necessitated new

boundaries of purdah). In the same vein as Hollingsworth (2002), these rules facilitated economic coordination and were embedded in purdah (i.e. a sense of obligation) and local power dynamics (Coe et al. 2008). Going beyond the theory, their initial innovativeness was also influenced by the external NGO. As sales and volumes increased, there was a need to revise these original rules. Higher trust contexts, with socially minded entrepreneurs, permitted other women to support the marketing and input supplies. In such cases, power dynamics evolved within the groups accordingly, with three possible tiers of women: lead women, assistants, and basic workers (Case 1), or four possible tiers of women: entrepreneur, sales agents, lead women, and basic producers (Case 2). However, a conservative context, or an entrepreneur who desired control, affected the possibility of delegating to other women. In one strict village, it was necessary to involve the entrepreneur's male family members, creating challenging dynamics in an all-women's enterprise (Case 1a). Finally, at the tertiary level, networking and collective action rules were formulated between similar producer groups or firms. These rules were related to joint marketing (quality control, branding, exhibitions, sharing of demand) and technical trouble-shooting in Case 1 and 2. In Case 3, coordination related to collaborating for training and subcontracting, necessitating frequent interaction with similar firms.

3. Multi-level drivers in institutional emergence

Towards integrating relevant insights from institutional political economy, evolutionary discussions and economic sociology, the research has endeavoured to go beyond the notion of efficiency driving institutional processes, to explore the interaction of diverse drivers in institutional change and emergence, particularly in a fragile and informal setting. Expanding on prevailing discourse, this section draws attention to notable aspects of institutional development: the nested nature of emerging institutions and their interconnectedness, socioeconomic triggers and motivations, and the influence of trust.

3.1 Nested institutions in enterprise

In the same vein as Heckathorn (1984) and his description of 'nested' games, Ostrom (1990: 52) uses the innovative concept of 'nested' rules to describe the linkages between them, and their capacity for change. With layers of rules, change is conceived to be more difficult

for deeper level rules, with some considered fixed or exogenous. Holm (1995) uses this concept to describe nested organisational systems. Gomez (2008) further hints at notions of nestedness in her study of exchange clubs, with local business groups linked to evolving higher-level organisations, and the issue of related – and potentially conflicting – rules and enforcements.

Corroborating concepts of nestedness, the research cases have indicated the embedded nature of institutions within enterprise, and their ultimate anchoring in sociocultural institutions (Ritchie 2013). In the generation of rules, lower-level rules such as *purdah* (initially) shape the development and design of higher-level enterprise rules. Subsequent desired innovations at higher levels may then require more fundamental changes/re negotiations to lower-level, evolving norms of *purdah*. Initially, tentative changes to the institution of *purdah* were purposefully introduced through transforming ideas and perceptions (cognitive institutions). This enabled the development of basic routines related to labour in production (primary enterprise level). Expanding boundaries further, chain routines were then agreed to with regards to local supply and marketing (secondary enterprise level). Finally, the groups developed collective action rules for cross-group marketing and exchange (tertiary enterprise level). Enterprise rules tended to be created sequentially, and were contingent on lower-level rule formulation. The scope of each layer of enterprise rules seemed to be shaped by the root sociocultural institution, influencing both the nature and spheres of emerging business activities, and determining gradual rule formulation.

In the institutional development process, the research has highlighted the involvement of a multitude of actors in transforming, designing and shaping social institutions and institutions in enterprise. External actors, such as NGOs, have shown that they can assist with the initial transformation and design of new institutions, in coordination with community power holders. They can also guide willing and capable entrepreneurs (and local supporters) in navigating local conditions and actors, to necessarily (re)shape the resulting design of institutions, towards the development of fair and appropriate rules in enterprise. And the process of reformulation cannot, in fact, be done without the involvement and support of these entrepreneurs, as the key implementers. Yet NGOs can equally play a less effective role through the poor design of institutions, and/or later constrain their

evolution. Enterprise rules have proved dynamic and evolving within the respective context, but the scope of their evolution has remained grounded in the dynamism of the core sociocultural institution, largely determined by the entrepreneurs, and the broader influence of local conditions and key actors.

The 'institutional ripple effect' controlled by powerful actors

Adding insights to Ostrom (1990) and the concept of nestedness, the nature of the interdependence of rules has been elaborated empirically in the research, to indicate spheres of applicability, scope of variation, and enforcement with overall control firmly resting with powerful actors (entrepreneurs and power holders). Specifically, the development of higher-level, secondary enterprise institutions (rules in marketing and collective action across firms) has been conceived as being nested in lower-level, primary enterprise routines (internal rules in production), and finally embedded in the strictly regulated, evolving social institution of purdah, entrenched in deeper cognitive institutions. With their proximity to social institutions, lower-level enterprise rules (such as production routines) require significant negotiation, and their sphere of applicability is shown to be broader than higher-level rules since these rules apply to all enterprise participants. Lower-level rules may also manifest more variations than higher-level rules (that is, within agreed-upon, internal routines), and there may be layers of rules for different enterprise members. There may also be stronger levels of enforcement of lower-level rules by the group members, due to their wider applicability.

Higher-level enterprise rules build off existing production rules for selected women but still require renegotiation of core rules in their formulation, with potential ripple effects for lower-level rules, as layers of institutions are established. For example, new marketing rules will necessitate new agreements on purdah for selected women, and this may in turn influence their participation in internal production routines. Higher-level rules apply to fewer women, and can be less transparent (if the entrepreneur wishes), with looser levels of enforcement by the group members, and enforcement, instead, through market actors or by similar firms. This can create both suspicion and conflict within the group, if it is poorly managed. These higher-level rules may be more quickly negotiated with local power holders, due to their limited sphere of applicability (i.e., fewer women are involved).

In summary, it can be useful to view institutions as a series of layers with rules for different players, and different levels of enforcements and related power dynamics. The use of concentric circles illustrates the relationship between institutions, with the social institution and cognitive institutions at the deeper core of the 'onion' (and hence more entrenched), and emerging outer layers of enterprise institutions, each with associative (describing mechanisms of social interaction), regulative (describing boundaries of social behaviour), and constitutive (describing physical and social (relations) bounds) dimensions (Figure 11.1). Negotiated changes to the core social and cognitive driver institutions can notably ripple out, and generate change in the broader overlapping layers. Yet, beyond the research, it is perhaps important to emphasise that the nestedness of institutions in social institutions may not apply equally in every environment. Rather, it may be a particular phenomenon in more fragile developing country environments: where the state is weak, and exclusive (informal) institutions dominate (in terms of gender, caste, and ethnicity). As such, the phenomenon of the nestedness of enterprise institutions in social institutions may be considered 'context-dependent'.

Figure 11.1 Nested institutional development rooted in social and cognitive institutions

3.2 Dual motivations in the emergence of new embedded market institutions

Whilst the nested nature of emerging rules is established, it is necessary to further explore the initial mechanisms precipitating change. It is interesting to reflect on both triggers (conditions and events) and motivations (actor interests) of institutional emergence. Institutions have been shown to be interdependent and crucially anchored in a core social institution. At the outset, the deliberate introduction of a revised sociocultural belief or idea (such as women's mobility) by an outside actor was crucial in setting institutional transformation and development in motion, in the same vein as Hodgson (2003). Whilst not viewed as a radical single event, the results were quietly revolutionary in permitting the initiation of new economic routines (that is, rules in production) and establishing a new institutional path. Triggers for the subsequent development of enterprise institutions (rules in marketing and collective action across

firms) were then tied to the initiation of lower institutional layers, as discussed, and motivated by social and economic dimensions, with reasonable levels of trust/stability within the community, group, and across groups. For example, in the initial transformation of the social institution of *purdah*, the trigger was the introduction of the new social idea/belief that permitted the new concept of women's involvement in business. In the subsequent development of internal production routines that are necessary for group productive work, the trigger was the transformation of the social institutional barrier permitting rule formulation about women's physical place of work, technology and productive tasks, and participation levels. In the secondary development of chain or marketing rules that are necessary for market interaction, the trigger was the establishment of internal routines. In the final development of networking arrangements (aiding economies of scale), the trigger was the establishment of external routines. Drawing this together, as a result of the socially embedded nature of rules, the motivations for the development of different tiers of institutions has been situated in both the evolving nature and needs of the business and efficiency objectives (i.e. economic motivation), and in negotiating social requirements (i.e. social motivation), including the scope of actor participation, the sphere of operation, and the need for interaction with different players. This is captured in Box 11.1.

3.3 Role of trust and authority in institutional development/formalisation

Taking a closer look at local dynamics, institutional emergence and formalisation were also influenced by degrees of trust and perceived authority. Trust reduces the opportunity for purely self-driven behaviour and facilitates emerging economic activity. Cultural, social and historical contexts and prevailing social relations influence trust levels and arrangements (Hollingsworth and Boyer 1997, Lyon and Porter 2009). In particular, Fukuyama (1995) highlighted shared values/norms as providing a basis for trust, in the development of loose, flexible, less codified, rules at the group production and marketing levels.

Box 11.1 Motivation and triggers of layers of nested institutional arrangements

Institutional layer	Primary motivation	economic	Secondary motivation	social	Trigger/Conditions
Transformation of boundary social institution	Need for business, engagement	initiation of and in production/technology	Conceptual Women's involvement in business	in	New sociocultural idea/belief introduced Community stability and trust
Internal routines	Need for collaborative production		Practical Sphere of operation Extent of participation	of	Environmental institution transformed Community/group stability and trust
External chain rules	Need for transactions	market	Practical Sphere of operation Extent of participation Interaction with market players	of	Internal routines established Community/group stability and trust
Networking institutions (similar firms)	Need for economies of scale	of	Practical Sphere of operation Extent of participation Interaction with market players (other firms)	of	External chain rules established Community/group/cross-group stability and trust

Source: Author.

In the research, whilst previous market-oriented orders were dominated by informal institutions (home-based production), in the transformation of purdah and the development of institutions in enterprise, new forms of less personal trust and relations in the marketplace have generated both formal (for example, written contracts with buyers), as well as informal (for example, internal routines) institutions. And thus, in this new socioeconomic order, the traditional dichotomy has disappeared (that is, the formal state versus the informal, non-state market). In Case 1, formal institutions have now become more important in business transactions, and originate from this new evolving business environment. The NGO plays an

initial, notable role in these contracts as an unofficial guarantor, in the short-term, before trust is established. Yet the trust of actors and evolving institutions still remains heavily embedded in broader Islamic norms and virtues.

Towards examining levels of authority, Ostrom (2005) described the benefits of 'polycentrism', where multiple layers of governing authorities at different levels assist in coping with the tragedy of the commons, and strengthen abidance and trust in institutional rules. At the firm/group level, the formalisation of rules was determined by local levels of trust (before efficiency objectives set in), in addition to levels of authority. Evolving rules have tended to remain informal where trust is high, both in the enterprise group and within the community, with oversight by power holders and a secondary perceived level of authority by the NGO. This was typical in the early to middle stages of the enterprise, where roles remained more similar within the group and power relations were homogenous, with strong oversight by power holders and the NGO. This arrangement led to significant efficiency, and savings on costs related to explicit worker contracts and enforcement. It also increased trust between members and bolstered voluntary group activities. However, as roles matured and diversified with a necessary division of labour and responsibilities, trust levels within the group were affected. In Case 1b, this led to the introduction of formal attendance registers for production-level routines. Yet, even if trust amongst the women was high, in low-trust community environments, power holders enforced strict and more codified rules related to task participation (agreed names of marketing women) and brought in more rule rigidity (for example, Case 1a and Case 2b). Essentially, where there may be strong trust at both the group and community level, rules remained informal until the business complexity necessitated their formalisation. This has likewise been shown at the coordination level, particularly in the more developed Case 1. As the number of groups has increased, the codification of roles and responsibilities has been deemed necessary to manage more diverse relations between them.

4. Muddling through or strategies design: multiple-actor negotiation in institutional development⁷

Institutions do not as a rule fit with each other because they were designed for the purpose ... More often than not, actors

have no way of knowing exactly what institution best ‘fits’ the other institutions on which it might depend for positive complementarity ... Institutional coherence and complementarity is as much discovered and improvised as it is intended. Both rationalism and functionalism grossly exaggerate the capacity of actors to know what they are doing before they have done it. (Streeck 2002, as cited in Hollingsworth 2002: 15)

Looking more closely at the process of institutional change, the discussion builds on Fligstein (1997), Hodgson (2000, 2003, 2007), Chang (2002), Beckert (2003), and Gomez (2008), further elaborating the influence of existing institutions in institutional development, local conditions and the role of different actors, and their capacities, interests and power. In this section, I draw together and elaborate on key insights in the institutional process, including the nature of institutional phases, and the interaction of key actors to further analyse dynamic interests and the myriad of strategies deployed.

4.1 Institutional design process: devils in the details

Rational actor theory holds that actors are perfectly informed of the costs and benefits of choices, and that choices are made independently of other influences. Going beyond neo-classical economics, institutionalists have drawn attention to the influence of power and history in institutional development (Bardhan 1989, Chang and Evans 2000), existing institutions and organisational structures (DiMaggio and Powell 1991, Hollingsworth and Boyer 1997, Platteau 2000), and habit (Hodgson 1997, 2003). Others have highlighted the role of agents and collective action (Beckert 1999, 2003, Fligstein 2001, Lawson 1997), with more radical change precipitated by clashes between agents with differing interests (Campbell 1997). Ostrom (2005) emphasised the importance of local ownership, of agents devising and shaping their own rules, permitting social norms to evolve, and enhancing the strength of cooperation. Meanwhile, anthropologists highlight religious or cultural traditions with comfort derived from familiarity of language, art, and ritual (Geertz 1973), and suggest that new innovations usually fail unless the culture is prepared for them, or if the environment is changing radically (Everett 2012).

Uncertain ‘creative’ design and guided reformulation

Gomez (2008) identified three stages of institutional evolution: experimentation, design, and replication. She conceived that agents experiment with new institutions in 'reflective action', and that actors embedded in networks play a key role in interpretation and decision making. In the same vein as Gomez, three institutional phases were observed in this research, although actor involvement was indicated to be more complex, influencing the scope of each phase, its duration, and outcomes. Institutional phases thus included the initial introduction of the innovation (the reformed, or early, rule), proposed by the NGO, and jointly formulated in agreement with the entrepreneurs and power holders. The second phase then saw the new rules reshaped and tested, predominantly by the entrepreneur, in negotiation with power holders. Even if the NGO designs were appropriate, there was a need for local adaptation and elaboration. Finally, if successful, the last phase included the operationalisation and stabilisation of new rules, with potential for replication. In higher-level rules, the three phases were less extensive with shorter durations, due to more distance from the root of the social norm, and a reduced sphere of application (i.e., it was only for selected women).

In the first stage, early rules were introduced by the NGO. These external actors demonstrated varying capacities in design, drawing on their own experience and expertise where available, and trying to ensure that rules were appropriate to the prevailing culture and boundaries imposed by power holders. Trust played a part in the acceptance of initial institutional innovations, and their local integration. NGOs described this phase as crucial, with less credible staff delaying the introduction of new institutions in addition to local destabilising events, such as local conflicts. The second experimental stage was triggered by the introduction of these new institutions to the enterprise women. This phase included a trial period, in which the designed institutional arrangements were shaped and fleshed out through experimentation. Rules tended to be promoted by highlighting their link to their existing religion/culture (progressive aspects), and fostered through close working conditions, openness and group meetings. Failures to overcome local resistance and conflict were shown to either delay or prohibit the progression to Stage 3. This led to the significant reformulation of rules and narrowing down their applicability (as evident both in Case 2b and Case 3, in the development of marketing routines). In most of the cases, the final stage was characterised by the formal operationalisation and

stabilisation of the institutional arrangements with potential for replication. Stages 2 and 3 were observed to be dynamic, as shifting roles and conditions necessitated rule reformulation and rule variation with business development. The entrepreneur largely led revisions in the routines, navigating the context and power holders, influencing the evolving roles of other women, and the strategies in expansion/growth. In low-trust environments, however, strict control over rules was maintained by entrepreneurs, with little flexibility, particularly by less public-spirited (or insecure) entrepreneurs, affecting institutional development. Power holders could also equally micro-manage the rules, leading to high restrictions on their applicability. Likewise, NGOs could micro-manage rules (or retain too much control), constraining local ownership and their ongoing development.

Overall, these new insights into the institutional change process indicate that the duration, negotiation and ease of related phases (introduction, trialling and stabilisation) were influenced by three specific factors. First, this included the level of the rule and its relation to the root social institution, with lower-level institutions (for example, routines) and those requiring significant change to the social institution proving most time-consuming, intensive and difficult. Second, this included the nature of local conditions with more unstable, lower trust environments creating setbacks and further delaying rule development. Third, the phases were influenced by the capacity and interaction of local actors. This included the credibility and capacity of NGO staff (particularly in phase 1) in introducing new ideas and gaining early support within the community. Meanwhile, the charisma, capacity and interests of entrepreneurs were instrumental in the middle to final stages of institutional development (phases 2 and 3), in encouraging the other women, shaping and championing their new rules, and negotiating with female and male power holders. Finally, the attitudes and support of power holders was critical across all phases. Power holders played a strong role in both the introduction and renegotiation of rules – particularly lower-level rules and rules that touched upon social institutions – and in the designation of physical and social boundaries.

4.2 Interaction of dynamic and diverse actors

In examining the process of institutional construction above, the integral role of several key actors has been identified. These include the NGOs, the entrepreneurs and local power holders (local authorities and elders). In line with the discourse, the research has indicated the entrepreneur as a key agent of change. Baron (2004) highlighted the cognitive role that entrepreneurs play in the careful analysis of situations and events and in the making of strategic plans. Yet going beyond just entrepreneurs, and as indicated in this research, organisation studies drew attention to a range of institutional entrepreneurs who may be involved in the creation of new institutions (for example, Battilana et al. 2009). Most of the literature emphasises their positive force, whilst a few more nuanced studies have indicated that these change agents may also employ mixed strategies with varied outcomes (Ford et al. 2008). Streeck (2002) suggests that actors may be less strategic in the design of institutions, but highlights ‘entrepreneurial creativity’ in the shaping phase to ensure that they fit with existing institutions. Several authors have elaborated on the emerging design of institutions as influenced by individual intentions and interests (Beckert 2003, Joas 1996, Lawson 1997). Meanwhile, Beckert (2003: 774) highlights that most action is ‘based on “unreflected routines” (Joas 1996)’ in line with ‘theories which emphasize “habits” (Dewey), “practical consciousness” (Anthony Giddens), “routines” (Alfred Schutz), “knowing-in-action” (Donald Schon), or the “tacit knowledge” of actors (Michael Polanyi)’. And it is when these routines fail or are inadequate that actors engage in creative action through a ‘process of innovation by experimentation’ (Beckert 2003: 775). Gomez (2008: 248) suggests that there is still a gap in the theory when the conditions of the environment change and the rules of action become redundant, and new rules need to be created.

It is instructive to examine the interaction of key actors in institutional change and development, and the influence of local conditions. Gomez (2008) cited three necessary conditions to facilitate the bottom-up design of institutions: the initial presence of collective action by skilled or resourceful entrepreneurs, the participation of agents interested in new rules, and preexistent institutions that delimit experimentation and aid the search for new solutions. In the research case studies, these conditions proved important, although not entirely

sufficient for the bottom-up design of institutions. An extreme social environment necessitated the outside support of an NGO to assist with the initial transformation of the boundary institution of *purdah* and the related development of enterprise rules in negotiation with power holders. Meanwhile, resourceful (and less resourceful) entrepreneurs, together with active workers were intricately involved with shaping evolving institutions with the approval of local power holders. This phase of trial and error was critical in creating participation in the formulation of rules and local ownership, as described by Ostrom 2005. The research has demonstrated that in more stable environments, with progressive actors, easier resolutions were possible, where gradual deviation was more acceptable. In more challenging and less stable situations, there was a need to draw on more extensive strategies, with some entrepreneurs exploiting the situation for their own benefit. Resulting outcomes have proved to be nuanced. Entrepreneurs may be constrained or activated by their own motivations/interests in addition to their power. These factors affect the emerging nature of the evolving institutions, and the levels of access by others. Yet, in addition to institutional design affecting access, the character and reputation of the entrepreneurs and their networks can also influence the extent of uptake by others and the scope of replication (as they are perceived as role models), which affects the broader adoption of new routines. Thus, as indicated in bounded rationality theory, it is not just the quality of the institutions that matter, but who the designers and promoters are that may be associated with those institutions.

4.3 Towards reconceptualising a multi-actor institutional construction scheme

In the construction and development of new institutions, the research advances Gomez's (2008) theory of the development of new rules through trial and error by entrepreneurs (resourceful, skilful agents of institutional adjustment) with the additional incorporation of support from external agents (NGOs), and negotiation with power holders, in vein with Chang (2002). Going beyond individuals or a single set of actors, a tentative new scheme incorporates the presence of multiple actors that influence institutional innovation, design and final shaping. Figure 11.2 attempts to go beyond Gomez's (2008) 'institutional-action-information double loop'. In this revised version, external actors play a role in navigating existing institutions towards

generating an innovation design concept, 'I'. This is presented to power holders generating boundary information, 'W'. External actors feed this into the revised innovation concept, 'I¹'. Entrepreneurs trial this in reflective action 'Y¹', and a new concept is presented to the power holders, 'I²'. Further boundary information is generated in 'W¹' towards new information, 'X¹'. Such schemes aim to capture the diversity of actors that may be involved in institutional processes, although they do not yet represent the nuances in power, trust and local conditions that shape actor behaviour and institutional outcomes.

5. Concluding remarks and reflections on institutional change in fragile settings

Pulling all of the various threads of this chapter together, I have endeavoured to carefully open up the 'institutional black box' to better understand the process of institutional change and development in fragile settings. This notably pushes forward the frontier of institutional theory, particularly where the discourse meets sociology and development studies. To date, key institutional contributions have been made by North (1990) (in the development of institutions), Hodgson (2003) and Gomez (2008) (in the effects of upward causation), Chang (2002) (in the role of power dynamics), and Ostrom (1990) (in understanding cooperation and institutional arrangements). Combining these theories with broader insights from the social sciences (for example, Beckert 1999, Fligstein 2001), this chapter has unravelled the process of institutional change to examine evolving norms, interests and local conditions. In an unusual approach, the discussion specifically looked at the transformation of *pardah* in precipitating the development of new institutions in enterprise in Afghanistan. The discussion highlighted the nested nature of enterprise institutions, the non-economic motivations in institutional emergence, and the uncertain roles of trust and power. It elaborated on the interaction of key actors in rule development, which influences the nature of the process and related outcomes. The research indicates that external actors, such as NGOs, can both initiate and foster institutional change and development, alongside local actors. Yet there may be limitations to the NGOs' endeavours, with strong resistance from local power holders, unpredictable local entrepreneurs, and disruptive events. Towards overcoming local opposition, the use of sociocultural strategies has proved particularly notable. Progressive aspects of local

culture, and more favourable interpretations of religious texts, have enabled the introduction of new ideas on women's roles, and have opened up attitudes regarding their mobility, permitting their culturally acceptable engagement in enterprise.

Lessons for inclusive and successful rule development in emerging enterprises in fragile environments include the critical role that outside actors, such as NGOs, can play as institutional innovators and guides, the need for legitimacy to reshape and maintain ongoing institutional development led by local entrepreneurs, and the importance of gaining the support of respective and progressive authorities. Ultimately, the research underscores the value of attaining cognitive synergies between these major players, in a receptive and stable context, towards more sustainable and equitable institutional development, embedded in open and evolving social institutions. Advancing the theory, this chapter has highlighted the importance of multi-actor, structural and evolutionary thinking, going beyond either pure individualism or structuralism, towards appreciating institutional processes and their outcomes in local economic development. For the field of development studies, this may also permit deeper, more nuanced understandings of fundamental processes of democratic change in human societies.

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Notes:

- ¹ Amongst elite/trading families, enterprise is now becoming more common for women, particularly in urban centres. It is important to note that even under the Taliban, at the end of the 1990s, there were exceptional cases of Afghan women entrepreneurs in Kabul and Herat (Tzemach Lemmon 2012). Yet such women tended to stem from city-based families that were more liberal and educated, and the challenge was in navigating the strict-Taliban context (rather than family/social group values).
- ² The fieldwork took place over a period of fourteen months (2010–11), in three research phases.
- ³ Drawing off entrepreneurial discourse, Binks and Vale (1990: 18) defined entrepreneurs as those who respond to market signals, are involved with the innovation of ideas, and facilitate market processes in economic development. In the research, whilst the entrepreneurs did not theoretically initiate the business themselves, they were involved with both leading the group and championing the development of enterprise rules (organisational innovations).

- ⁴ These participatory techniques included the use of illustrated flashcards (depicting village characters), coloured cards (representing different types of strategies), beans (indicating power) and string (links between actors).
- ⁵ This included, initially, drafting a rich description of the situations, events and roles of different actors in the course of institutional transformation and development, identifying and analysing key mechanisms in institutional change processes, and finally, consolidating research material with cross-case analysis.
- ⁶ The use of local champions was strategically employed by the facilitating NGOs in Cases 2 and 3. These were male elders who were identified by the NGO at the start of the project as project supporters. They were both charismatic and persuasive, and progressive in their views. They were motivated by a belief in the project and in women's empowerment. In some circumstances, they received small financial tokens from the NGO for community work (for example, helping to resolve family conflicts around women's participation).
- ⁷ Charles Lindblom (1959) used the term 'muddling through' in his famous paper, *The Science Of Muddling Through*, to describe non-linear processes of decision making in public policy, emphasising instead a process of negotiation.