



Entrepreneurs' responses to organized crime and violence

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Abstract

This research aims to investigate the various direct and indirect impacts of organized violence and crime on small and medium-sized enterprises (SMEs), as well as entrepreneurs' responses to violent acts. A mixed-method design based on a quantitative content analysis of 204 news stories found in the international press and a multi-case study covering 10 SMEs operating in Monterrey, Mexico, is used to explore entrepreneurs' responses to the direct and indirect effects of violent acts. The results highlight the dynamic between informal and formal institutions in SMEs' attempts to survive in complex institutional contexts. Future studies based on the results of this research could enhance the literature on SMEs and entrepreneurs in emerging markets. The results, which illustrate entrepreneurs' responses to violent acts, enhance our understanding of the emerging operational and managerial strategies of SMEs operating in complex institutional contexts. The findings highlight the emerging process of social change in Mexican society among members of the middle class, and various attempts to fight back against organized violence and crime in a non-violent manner. SMEs are important in Mexico and Latin America. However, the understanding of the direct and indirect impacts of organized crime and violence on SMEs is limited. This research identifies and analyzes the emerging responses of entrepreneurs to these institutional constraints.

Keywords: SMEs, institutional theory, violence and crime, Mexico

1. Introduction

For small and medium-sized enterprises (SMEs), Latin America's institutional context presents not only numerous opportunities but also significant challenges. The region is undergoing a process of institutional change (e.g., Diaz and Vassolo, 2012). At the same time, organized crime and violence have become one of the most difficult challenges (Latinobarómetro, 2013) faced by entrepreneurs and owners of SMEs in Latin America. Entrepreneurs who develop new products, services and techniques are confronted by criminal entrepreneurship (Smith, 2009), who execute organized crime and violence acts (Sutter, Webb, Kistruck, and Bailey, 2013) as they *modus essendi*, *modus operandi* and *modus vivendi* (Smith, 2009, p. 257). This paper analyze non-criminal entrepreneurs in Mexico, who cannot rely on secure property rights enshrined in the rule of law, and usually lack bargaining power (Parker, 2009, p. 20) against powerful drug cartels and the public bureaucratic system (Estrin and Prevezer, 2011).

Mexico encompasses a critical paradox crime-entrepreneur (van Duyne, 1999), such as lords of drug cartels that have destabilized the Mexican institutional context. At the same time, Mexico's political and economic transformation since the 1980s (e.g., Carrillo Rivera, 2007) has set the stage for a relatively stable economy (OECD, 2013), which is highlighted by the

27% increase in entrepreneurship activities between 2005 and 2008 (Ernst and Young, 2013). This paradox suggests that national and international firms can prosper in Mexico despite the country's fragile institutional context.

In this paper, we present a sequential, explanatory, mixed-method study (Creswell, 2009) with the aim of providing an account of the direct and indirect impacts of organized crime and violence on SMEs in Monterrey, Mexico. Our study is based on a quantitative content analysis of international news reports to explore how the press presents entrepreneurs' owners of SMEs actions in response to violence. We also use a multiple case study (Yin, 1989) to map entrepreneurs' responses (Oliver, 1991) to organized violence and crime in Monterrey.

This research is based in Monterrey, which is located in the state of Nuevo León that shares a border with the US state of Texas. The city was selected for our research as it is considered to be the industrial capital of Mexico and as it makes a significant contribution to Mexico's economy (World Bank, 2012). At the same time, Monterrey is one of the Mexican cities that is most affected by an increasing number of violent and criminal activities (INEGI, 2013). The Mexican experience therefore serves as an appropriate context for discussions of how the local institutional structure (Scott, 2013) challenges the development of SMEs in Latin America, where

SMEs comprise 99% of businesses, employ approximately 67% of the region's workforce, and play a key role in enhancing potential growth (OECD and ECLAC, 2013).

First, we discuss extant theory regarding organizational responses to the institutional context (Oliver, 1991; Scott, 2013). We then develop our methodology before we present our results. Our findings enable us to draw implications for politicians, entrepreneurs, and academics, which are presented in the concluding remarks.

2. Relevant literature

Institutional conditions

Complex institutional contexts in which inefficient formal institutions (North, 1990) are characterized by corruption (e.g., Vassolo, De Castro, and Gomez-Mejia, 2011) and *clientelism* 'patronage arrangements' (Fox, 1994) have been found to affect the development of SMEs (e.g., Sutter *et al.*, 2013). At the same time, SMEs' survival may be challenged by informal institutions (Helmke and Levitsky, 2006; North, 1990) characterized by low levels of trust among members of the society owing to the operation of drug cartels in society (UNODC, 2013). Complex institutional contexts, which are plagued by organized crime and violence, might have direct and/or indirect negative

impacts on firms (Bader and Berg, 2013).

Arguably, members of civil society might construct their interpretations of organized crime and violence, and their resulting actions based on the journalists' framing of the situation. For example, Neuman and colleagues argue that frames used in news stories are "conceptual tools which media and individuals rely on to convey, interpret and evaluate information" (1992, p. 60). This argument will be elaborated in the context of Monterrey, Mexico which is present in the following section.

The institutional context in Monterrey

Several Latin American multinationals ("multilatinas") have emerged in Monterrey, including the world's third-largest cement maker, Cemex, the largest public bottle of Coca-Cola products in the world in terms of sale and volume, Femsas, the world's largest manufacturer of corn flour and tortillas, Gruma, among others. These multinationals have flourished in Monterrey despite the spread of the drug cartels and organized crime in the recent years.

While Felipe Calderón Hinojosa was President of Mexico, the administration decided to directly confront drug-trafficking organizations. It is argued that as a result of it, from January through October 2010, 530 deaths related to cartel crimes were reported, which represented an increase of

1,081% in from 2009 (Durin, 2012). The administration's war against the cartels quickly turned into an inter-cartel competition, and led to a string of disturbing and violent incidents, ranging from robbery to murder, perpetrated by different organized criminals and street crime-entrepreneurs (INEGI, 2013).

According to INEGI (2013), 182,122 cases of extortion were reported in Nuevo León in 2012. Such extortion took the form of *cuotas por uso de piso*. It could be argued that entrepreneurs who are challenged by crime-entrepreneurs might consciously or unconsciously devise different strategies to respond to institutional pressures (Oliver, 1991), which might be influenced by mass media reports. Several such strategies are presented in the following section.

Responses to institutional pressures

Oliver (1991) proposes a model that encompasses several strategic responses to institutional pressures: acquiescence, avoidance, defiance, and manipulation. "Acquiescence" refers to acceding to institutional pressures (Oliver, 1991), such as complying with illegitimate demands. Acquiescence can take several tactics: 1) habit, which refers to unconscious or blind adherence to preconscious or taken-for-granted value rules (Oliver, 1991); 2) imitation or voluntary, conscious avoidance; or 3) compliance. In this

research, we refer to extortion or *cuotas por uso de piso*, which are the illegitimate financial demands that members of organized crime impose upon entrepreneurs.

“Avoidance” is an organizational attempt to preclude the necessity of conforming by taking the following tactics: 1) concealing, 2) buffering, or 3) escaping from institutional pressures. Concealment is nonconformity hidden behind a *façade* of acquiescence that is purely symbolic (Pache and Santos, 2010, p. 462). Buffering refers to an organization’s attempt to reduce the extent to which it is externally scrutinized by partially detaching or decoupling its technical activities from external contacts (Oliver, 1991, p. 155), perhaps by restricting the distribution of information (Hirschman, 1970). Escape refers to an organization’s exit from the domain in which pressure was exerted (Hirschman, 1970), or to significant alterations in the organization’s own goals, activities, or domains to avoid the necessity of conformity (Oliver, 1991, p. 155).

“Defiance” is a more active form of resistance to institutional pressure (Oliver, 1991) that includes: 1) dismissal, 2) challenge, and 3) attack tactics. Dismissal, which entails ignoring institutional rules and values, is a strategic option that entrepreneurs are more likely to exercise when the potential for external enforcement of institutional rules is perceived as low. Challenge

refers to contesting the imposed norms, while attack refers to an organization's intense and aggressive departure from institutional pressures and expectations (Oliver, 1991).

“Manipulation” refers to the active intent to change or exert power over institutional pressures (Oliver, 1991) through: 1) co-optation, 2) influence, or 3) control tactics. A co-optation tactic seeks to neutralize institutional opposition and enhance legitimacy. Influence and control are tactics that specifically seek to establish power and dominance over the external constituents that are applying pressure on the organization (Oliver, 1991). This tactic is related to Hirschman's (1970, p. 30) notion of voice as “any attempt at all to change, rather than to escape,” which has also been referred as to alteration (Henrekson and Sanandaji, 2011). In Oliver's (1991) repertoire, from a passive role, the institutional context is taken as one in which entrepreneurs cannot make an impact: it is the way the society functions. However, some individuals might take a more proactive role with the goal of changing the institutional context.

This discussion leads us to the following research questions:

RQ1: Which criminal and violent acts towards SMEs, are reported in the international press?

RQ2: How do entrepreneurs respond to criminal and violent acts in Monterrey, Mexico?

3. Research Design / Methods

Our study is based on a sequential, explanatory, mixed-method design (Creswell, 2009) that was developed in two stages.

First stage: quantitative content analysis

In order to explore crime and violence acts, as reported in the international press, we developed a quantitative content analysis. We performed a search of the FACTIVE database for articles that contained the following keywords: “SMEs,” “entrepreneurs,” “crime,” “violence,” “Mexico,” “cartels,” and “extortion.” The search covered articles published between December 1, 2006, and November 30, 2012. This period corresponds to the presidency of Felipe Calderón Hinojosa, the Mexican president that implemented the “war against cartels” strategy. As the FACTIVE database does not include Mexican news outlets, we also undertook a manual search of news available on the websites of the most influential Mexican newspapers in terms of readership: *La Jornada*, *Milenio*, *El Porvenir*, *CNNMéxico*, *La Prensa*, and *Proceso*. The outcome was a total of 4,436 Mexican and international news reports.

We imported the 4,436 electronic documents into the NVivo10 qualitative software package. We analyzed the data set to identify articles that covered the main research topic: organized crime, and violence towards entrepreneurs and or SMEs. We searched for the keywords individually and in combination in order to develop an understanding of organized violence and crime, and entrepreneurs' responses. This procedure narrowed the number of documents to 2,446. Of these stories, 673 mentioned at least one incident of violence. Of those 673 articles, 204 presented at least one response from an entrepreneur. We used these 204 articles as the main data set. These articles included media reports that discussed actual violence and acts of crime (INEGI, 2013), media reports that mentioned at least one entrepreneur's response to violence in Mexico, and media reports that integrated statements made by entrepreneurs illustrating their responses to violence. Of the 204 newspaper articles, 105 (51.5%) originated from the US, 53 originated from Mexico (26%), 29 originated from Spain (14.2%), 7 originated from the United Kingdom (3.4%), 6 originated from France (2.9%), 3 originated from Canada (1.5%), and 1 originated from New Zealand (.5%). The average length of the sample stories was 701.28 words ($SD = 1,144.80$), while article length ranged from 248 to 10,390 words.

Then we hired two bilingual (Spanish-English) Ph.D. students in communication to independently code the 204 newspaper articles using a

codebook. Although the coders were trained to use the codebook, neither the research questions nor the purpose of the research were revealed. The codebook was constructed by strategies responses to institutional pressures were built from Oliver's (1991) above presented. Data on violence and acts of crime were taken from the Mexican national survey of victimization and perceptions of public safety (INEGI, 2013).

The documents were read in full to ensure a detailed and systematic analysis to uncover paragraphs that could be used to frame and assess the entrepreneurs' responses to organized crime and violence. Inter-coder reliability—the Cohen's kappa coefficient (Brennan and Prediger, 1981)—for a random subsample of 50 media reports was between .81 and 1 for all variables. The lowest kappa coefficients were found for the attack tactic (.81) and for escape within the current city (.9). For the rest of the variables, agreement between the two independent coders was at 1.

Second stage: qualitative analysis

Based on the results of the quantitative content analysis, we constructed an interview protocol that would enable us to conduct a series of semi-structured interviews for the purpose of building a multi-case study. Four

main questions were included in the protocol: 1) How have organized crime and violence affected your own life? 2) How have organized crime and violence affected employees' efficiency at work? 3) How have organized crime and violence affected the firm's work environment?, and 4) What are the main strategies your firm has designed and implemented to respond to organized violence and crime?

We systematically compared (Miles and Huberman, 1994) the transcripts of the interviews, our research notes, and the results of the quantitative content analysis in the context of organized crime and violence in Monterrey. We coded the direct and indirect impacts of crime and violence on SMEs and work-related practices as mentioned in each interview in relation to the context of each firm (e.g., industrial sector, location, market, and size in terms of the number of employees).

4. Results

In this section presents the results of the quantitative content analysis, which allow us to discuss the findings from our multi-case analysis.

Quantitative statistical analysis

Our research questions center on the violent and criminal acts towards SMEs and entrepreneurs' responses. First, we conducted a principal

component analysis with varimax rotation to group 13 different types of violent and criminal acts, covered in the news: 1) kidnapping, 2) injury from physical aggression, 3) murder, 4) robbery or assault (on the street or on public transport), 5) face-to-face threats 6) face-to-face extortion at SMEs, 7) total or partial theft of SMEs' materials, 8) e-mail threats, 9) phone threats, 10) fraud or bank-card cloning, 11) social-media threats, 12) destruction of SMEs' property, and 13) theft or assault at SMEs. The analysis resulted in two orthogonal factors (eigenvalues > 1) that explain 60% of the total variance, see table 1.

Insert Table 1 about here

Factor 1: The violent and criminal acts that comprise this factor are: 1) face-to-face extortion at SMEs, 2) total or partial theft of SMEs' materials, 3) theft or assault at SMEs, and 4) destruction of SMEs' property. This factor was named "direct impacts" (= .769).

Factor 2: The violent and criminal acts that comprise this factor are: 1) robbery or assault (on the street or on public transport), 2) injury due to physical aggression, 3) kidnapping, and 4) murder. This factor was termed "indirect impacts" (= .747).

Second, in order to investigate the underlying strategic responses to institutional pressures, we developed a separate principal component analysis with a varimax rotation covering the 12 different response tactics. The 12 tactics clustered into three orthogonal factors (eigenvalues > 1) that explain 53% of the total variance: *acquiesce* ($= .817$), *avoid* ($= .688$), and *manipulate* ($= .831$). The tactics *conceal* and *buffer* (avoid strategies), and *dismiss*, *challenge*, and *attack* (defy strategies) were not included in the analysis, as they did not meet the threshold (item loadings at more than $.50$). The *avoid factor* is composed of three forms of escape that emerged from the quantitative content analysis: 1) close the SME, 2) escape to another Mexican state, and 3) escape to the US. The acquiesce and manipulate factors clustered as suggested in the theoretical discussion, see table 2.

Insert Table 2 about here

We also explore the relations among the factors emerging from the quantitative content analysis. For this purpose, we conducted a correlation analysis between the direct/indirect impacts of violence and criminal acts, and the acquiesce, avoid, and manipulate strategies, see table 3.

Insert Table 3 about here

The positive correlations found between the *acquiesce* strategy and 1) *indirect impacts* (0.161* <0.05) and 2) *direct impacts* (0.426** <0.01) might suggest that entrepreneurs interpret the institutional arrangements found in Monterrey as the way that business operates. For example, entrepreneurs tend to quickly bend to crime-entrepreneurs' illegal demands for payment. Consider, for example, the following statement:

“Restaurants, bars, delicatessens, shoe shops, everyone is paying extortion money, said a businessman with a car dealership who has been extorted by drug gangs and declined to be named. And if you can't pay both extortion fees and your taxes, you tell the gangs and they sort it out for you” (Emmott, 2011).

The results of the principal component analysis also suggest a positive correlation between *avoid* strategies and the *direct impacts* factor (0.202** < 0.01). Given the lack of trust in formal institutions and given the various the governance indicators, entrepreneurs seem to be forced to escape to another city in Mexico or to the US (IDMC, 2012). Alternatively, entrepreneurs might choose to close their businesses.

It is important to analyze the profiles of entrepreneurs who move away from Monterrey. Entrepreneurs seem to make a strategic choice within the emerging strategy based on their resources. One group of entrepreneurs lacks

the ability to relocate internationally and refuses to pay the illegal payments demanded by the crime-entrepreneurs. Thus, these entrepreneurs either move to another city in Mexico or simply close their businesses.

A second group encompasses distressed entrepreneurs, or “refugees across borders.” These entrepreneurs have the financial resources and networks necessary to obtain a US EB-5 fast-track investor visa for themselves and their families. Consider, for example, the following statement:

“Jesus Gomez owns a Monterrey factory with 250 workers ... he bought a house in a quiet neighborhood in McAllen [Texas] after receiving five threatening phone calls from people he described as ‘vigilantes’ looking for money” (Whelan, 2012).

Entrepreneurs who immigrate to the US might implement a new organizational form (e.g., Baumol, 1990). This is particularly true with regard to managerial systems, and can include the introduction of changes in the firm’s organizational structure and in administrative processes.

We interpret the configuration of the *manipulate strategy*, which is positively correlated with the *direct impacts* factor (0.250** <0.01), as representing entrepreneurs’ involvement to challenge organized crime and

violence, as a lack of trust of formal institutions prevails. The quantitative content analysis suggests that entrepreneurs challenge organized crime and violence by relying on their own investments, most of which focus on private security or infrastructure, as illustrated by the following excerpt:

“Given the increasing violence in Monterrey, the owners of bars, clubs and restaurants are not only concerned about meeting the culinary and needs of their customers, but also with providing both customers and employees greater security; thus, more than the 50% of the restaurants in Monterrey operate with CCTV [closed-circuit television]” (Estrada, 2011).

This correlation might also indicate that some levels of civil society become actively involved in the “war against crime.” They seem to confront institutional challenges by pressuring governmental officials. The following is a typical example:

“I think the urgency of all this is very clear in the city's leaders—in the civic leaders, in the government leaders. It's very clear. That's why you will see the response of a well-organized civil society responding to this threat, through the institutions” (Luhnow, 2010).

Notably, the selection of the *co-optation* tactic, in which the firm seeks to

neutralize institutional opposition and enhance legitimacy, has been also reported in various Latin American countries. For example, the Colombian firm Hocol (Andonova, Gutierrez, and Avella, 2009) has developed several social programs through which the firm works with local communities and governmental officials with the aim of creating legitimacy, which in turn gives the firm a “license to operate” in areas of conflict in Colombia.

The *manipulate strategy* might be a contradiction in Mexico, where there are problems with the rule of law (World Bank, 2012). However, *influence* and *co-opt* tactics are related to Hirschman's (1970, p. 30) notion of voice, which refers to “any attempt at all to change, rather than to escape.”

Our results appear to suggest the presence of contradictions among the *manipulate*, *acquiesce*, and *avoid* strategies. We interpret these apparent contradictions as a result of the heterogeneity evident in Monterrey. For example, levels of organized crime and violence seem to vary within the Monterrey metropolitan area. Furthermore, entrepreneurs and civil society appear to select different strategies for responding to institutional pressures based on their resources. As discussed above, some entrepreneurs might invest more in security in order to attract customers, as described in this statement:

“In wealthier parts of the area [Monterrey], restaurants are still packed

and people still jog and walk their dogs at night. In poorer suburbs, though, entire blocks have been held up by gunmen and young people snatched off the streets” (Rodriguez, 2011).

Alternatively, firms might decide to simply comply with crime-entrepreneurs' demands or to escape from Monterrey to the US. These different approaches illustrate the various realities found in Monterrey, especially in terms of social cohesion (World Bank, 2013).

The quantitative content analysis does not offer evidence of entrepreneurs adopting a *defy strategy* (directly fighting back) in the face of organized crime. This strategy has been found in Guatemala (Sutter *et al.*, 2013). Crime-entrepreneurs operating in Monterrey seem to have powerful resources that encourage entrepreneurs to avoid direct confrontation.

Qualitative analysis – multi-case study

In order to further investigate our second research question, we developed a multi-case study. However, giving the intricate nature of our research, we relied on our personal network to contact managers and owners of SMEs when building our multi-case study. We gained access to 10 Mexican-owned SMEs. One of the authors conducted interviews with representatives of management of these SMEs. All interviews took place between September 3

and September 27, 2013, and sixteen senior managers and one firm owner were interviewed. The interviews lasted approximately 45 minutes, and all interviews were tape-recorded and transcribed verbatim. Given the confidentiality agreements signed with the owners of the SMEs in this article, we do not include a detailed account of each case. Instead, we present our multi-case study as a combined account of the struggles highlighted in our cases. The focus is on the impacts of organized crime and violence on SMEs.

Seven of the 10 SMEs included in our analysis had manufacturing plants in Monterrey. Two of the 10 firms were service providers with offices located in the Guadalupe municipality, which lies within the Monterrey metropolitan area. The remaining firm was a manufacturing firm located in the municipality of Cienegas de Flores, which is 50 kilometers from Monterrey. The SMEs' sizes, in terms of number employees, ranged from 30 to 500. The SMEs were established between 1906 and 2007.

We found several patterns between the media's accounts of the direct and indirect impacts of crime and violent acts, and the accounts given during the interviews. These allowed us to identify two main domains of SMEs' responses in our cases: organizational process (OP) and managerial (MGA).

The organizational-process (OP) domain covers the work-environment policies introduced by firms to protect their employees at work as well as the

SMEs' infrastructure. Of the SMEs in our sample, 88% had invested in security. In this regard, one HR manager commented:

“Some of our delivery vehicles had been attacked. Therefore, we needed to implement a security policy. Our transportation fleet is now equipped with global-positioning systems”.

The informants suggested that the lack of trust seemed to be escalating at both the governmental and civil society levels. As a result, 56% of the SMEs had implemented specific organizational policies. For instance, many firms blocked incoming calls from unknown numbers and stopped deliveries and/or ceased provision of the SMEs' products or services in conflict-affected areas. Our main findings in the OP domain are presented in Table 4.

Insert Table 4 about here

We identified a number of consequences arising from the indirect impacts of violence and criminal acts from the quantitative content analysis. These seem to have direct impacts on MGA domain, which we refer to as the managerial and work-related practices implemented to support employees working in complex institutional settings. For example, kidnapping and murder are some of the issues that seem to have a negative effect on

employees' stress levels (57% of SMEs in our sample), while they also result in lower productivity (32%) and a lack of concentration (19%). In addition, 57% of the respondents agreed that the level of motivation among employees had worsened in 2013, while 67% stated that the quality of work had deteriorated that same year. Employee tardiness and/or absenteeism was a problem for the 44% of the SMEs. The manager of case one described the effect in this way:

“There have been several shootings just outside the plant. On those occasions, we need to stop the production line. Now employees are afraid to come to work. As a result, we have higher levels of absenteeism”.

One action implemented in the MGA domain is a flexible management style, which implies the acceptance of tardiness or absenteeism in the event of street shootings. As highlighted by one HR manager, *“some employees use the organized crime and violence factor as a reason for not showing up to work”.*

On the other hand, one recurrent pattern evident in the multi-case study was that managers typically encouraged employees to participate in brainstorming sessions to develop security policies and practices, and to endorse the organizational values and ethics. A summary of the ways in which the management style was reconfigured is presented in Table 5.

Insert Table 5 about here

5. Discussion and conclusions

In this paper, we aimed to explore the various direct and indirect impacts of organized crime and violence acts on SMEs, and entrepreneurs' responses. The study can be summarized in two points: 1) various elements of a nation's institutional context seem to be important in determining entrepreneurs' responses, and 2) the implementation of operational and managerial practices at SMEs, such as investments in security and surveillance systems, and the introduction of supportive managerial practices, seem to be essential for the 10 firms studied here, all of which are operating in locations plagued by crime and violence. The academic literature offers limited empirical research covering these two points. Therefore, our findings suggest that we need to rethink the configuration of SME management practices that are designed elsewhere and then introduced in Mexico or in other emerging economies.

The results presented here have several theoretical and managerial implications. In terms of complex institutional contexts, our analysis of the news reports and the themes emerging from our multi-case study highlight potential inefficiencies of formal institutions. This is particularly true with

regard to the characteristics of the rule of law in Mexico, which shapes entrepreneurs' expectations (North, 1990) and encourages them to strategically develop alternative adaptation processes in response to inefficiencies and the lack of trust in formal institutions. The use of the *manipulation strategy* seems to lead to the creation of formal rules and can shape formal institutional outcomes in a less visible (Brinks, 2003) way by creating or strengthening incentives to comply with formal rules.

One important point is that our results might suggest the social-change process that is emerging in Mexican society. This transition process is also evident, for example in Brazil, Colombia, and Venezuela. It affects members of the middle class, who are generally the entrepreneurs in Mexico and across Latin America (Naranjo and Campos, 2011). These actors are involved in a profound attempt to fight back against crime-entrepreneurs, in a non-violent manner by collaborating within civil society and/or with local governments. However, only future research could test this tentative outcome from this research.

In terms of practical implications, special attention should be paid to entrepreneurs' abilities to adapt to institutional constraints. Adaptation seems to be an important factor in SMEs' survival, especially as SMEs might not have governmental protection or the capital necessary to combat crime-

entrepreneurs. The strategies evident in the quantitative content analysis – the *acquiesce*, *avoid*, and *manipulation* strategies – for responding to criminal and violent acts, reflect to those discussed in other studies (e.g., Sutter *et al.*, 2013; Estrin and Prevezer, 2011). However, we suggest that informal institutions and organized crime and violence in Mexico have an impact not only in terms of strategic responses but also in terms of formal institutions. We therefore urge researchers focused on emerging and transition economies to consider how entrepreneurs respond to challenges found in complex institutional settings and how those responses shape formal institutions. This might help in the development of novel SME strategies that can simultaneously meet customers' demands and institutional challenges.

In conclusion, the institutional context of Monterrey highlights the challenges SMEs face in attempting to deal with organized crime, which appear to be a phenomenon also found in other transition economies, such as those in Eastern Europe, Guatemala and Russia (Estrin and Prevezer, 2011; Sutter *et al.*, 2013). It therefore provides fertile ground for the development of new elements in studies of SMEs. Additional research in emerging economies might help us to better understand how entrepreneurs respond and design strategies in complex institutional settings.

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Tables:

Table 1: Varimax-Rotated Factor Solution for Direct and Indirect Impacts

Illegitimated arrangements items	Factors	
	Factor 1 Direct Impact ($\alpha=.769$)	Factor 2 Indirect Impact ($\alpha=.747$)
Face to face extortion at the SME	,586	,443
Total or partial theft of SMEs' materials or equipment	,697	,290
Theft or assault at the SME	,831	,127
Destruction of firms' infrastructure	,821	,067
Robbery or assault in the street or on public transport	,396	,640
Injury due to physical aggression	,273	,706
Kidnapping	,177	,763
Murder	,000	,753

Table 2: Varimax-Rotated Factor Solution for the Tactics items

Tactics	Factors		
	Factor 1 Avoid ($\alpha=.688$)	Factor 2 Manipulate ($\alpha=.831$)	Factor 3 Acquiesce ($\alpha=.817$)
Habit	-,012	,141	,811
Imitate	,106	,008	,911
Comply	,149	-,003	,833
Escape-CD	,694	,141	,252
Escape-MTY	,774	-,151	,051
Escape-MX	,723	,079	,085
Escape-Ext.	,828	-,139	-,083
Co-opt	,068	,879	,100

Influence	-,054	,819	,056
Control	-,071	,878	-,005

Table 3: Correlations

	Direct Impacts	Indirect Impacts	Avoid	Manipulate	Acquiesce
Direct Impacts	1				
Indirect Impacts	,000	1			
Avoid	,202**	-,073	1		
Manipulate	,250**	,047	,000	1	
Acquiesce	,426**	,161*	,000	,000	1

** . Pearson Correlation is significant at the 0.01 level (2-tailed).

* . Pearson Correlation is significant at the 0.05 level (2-tailed).

Table 4: Organizational process (OP) domains

Organizational process (OP) domains	Percentage of informants mentioning OP domains	Examples of impacts of the institutional context on OP domains
		Investment and actions
Investments in security	88	<ul style="list-style-type: none"> • Investment in a global positioning system (GPS) system for the company's transportation fleet • Installation of video-surveillance systems • Private transportation for employees • Introduction of private security guards
Change in organizational policies and processes	56	<ul style="list-style-type: none"> • Changes in logistics for delivery of products and services • Phone calls from unknown numbers blocked • Firm's front door locked • Identification necessary to enter the

		firm <ul style="list-style-type: none"> • No firm logo (e.g., on firm's fleet) • Allow work at home • Change working hours • Cancel night shift
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Table 5: Managerial (MGA) domains

Managerial domains	Percentage of informants mentioning MGA domains	Examples of impacts of the institutional context on MGA domains
		Re-configuration of management style
Stress	57	<ul style="list-style-type: none"> • Flexible management style • Emphasize work values and ethics • Highlight firm's core values • Encourage motivation and loyalty among employees • Encourage employee involvement and participation in brainstorming sessions to develop security policies and practices
Tardiness or absenteeism	44	
Lower productivity	32	
Lack of concentration	19	