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INFORMAL MANAGEMENT OF COMMERCIAL DISPUTES AMONG SMALL ENTREPRENEURS IN HYDERABAD DISTRICT, PAKISTAN

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Abstract

Small entrepreneurs in Pakistan trade based on oral agreements and credit, and do not resort to formal courts to resolve disputes. This study documents the process of small entrepreneurs' commercial disputes from breach to resolution or breakdown in the Hyderabad District of Sindh. It is based on 20 semi-structured interviews. Thirteen participants had distinct businesses, one was a key informant from a traders' association, and six were interviewed separately but analysed together as a single account because they work in the same market. Relational contract theory, legal pluralism, and informal institutional theory are used to guide the analysis. First, the owners attempted to resolve the dispute directly with the other party in 12 of the 13 owner accounts, and three disputes were resolved at that point. When the other party was not available or not interested, the owners resorted to a market union or association, elders, or mutual contacts. The first third party was not successful in 6 of the 10 cases that involved a third party. However, in a number of instances, forums proved effective when the other party was still a part of the market or community under the control of the third party, such as jewellers and bangle traders. In contrast, enforcement was weaker in the cases where the counterparties could exit or benefit from power coming from outside. Six business relationships were terminated and one owner left the business. None of these seven recovered the full amount they deemed to be owed, and some recovered only part. Owners more often took losses due to reputation concerns than defaulters paid because of these concerns. This study is an exploratory account of informal dispute management among small entrepreneurs in Hyderabad, Sindh. It suggests that informal enforcement depends on whether the other party remains in the market controlled by the forum, a pattern that larger samples should test.

1. INTRODUCTION

In developing economies, small firms frequently conduct business in the absence of strong formal institutions. Cases in civil courts face long delays, the costs of litigation are high when compared to the sums at stake, and contracts

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are difficult to enforce. In these conditions, business owners rely on personal trust, kinship and unwritten agreements to organise everyday trade. Palepu and Khanna (1998) describe such gaps in market-supporting institutions as *"institutional voids."* Informal arrangements make trade possible in these voids. What happens when one of those arrangements breaks down is less well understood.

Pakistan offers a clear case. In the bazaars of Hyderabad District, Sindh, trade runs mainly on credit ledgers (*khata*) and spoken agreements (*zaban*). Shahi Bazaar, Resham Gali, Tower Market, Choori Market and Sabzi Mandi are examples. Hyderabad is also the main centre of glass bangle production in Pakistan, and that trade runs on seasonal credit (group account, P05 to P10). When a partner withholds profits, a buyer defaults or a supplier fails to deliver, the courts are rarely the first resort. Traders turn instead to market unions (Anjuman-e-Tajiran), community elders, mutual contacts, political intermediaries and religious oaths. Earlier studies of Hyderabad have examined how culture shapes the growth of small enterprises (Chachar et al., 2013) and the living conditions of street hawkers (Dharejo et al., 2022). How the city's traders manage disputes has received far less attention.

This study examines that process. It traces commercial disputes among small entrepreneurs in Hyderabad District from the original agreement to the outcome. The study draws on 20 interviews conducted in 2026, which provide 15 sources. Three areas of research frame the study: informal entrepreneurship, relational governance and legal pluralism. They are reviewed in turn below, then brought together in a theoretical framework that leads to the research questions.

1.1. Informal entrepreneurship and institutional voids

Informality is now widely understood as an organised system with its own rules, not simply the absence of state law. Where formal institutions are weak, unwritten rules, trust and social norms reduce the cost of exchange (Amoako & Lyon, 2014; Williams & Shahid, 2016). Informality has economic as well as social weight. Informal institutions affect transaction risk and firm productivity, as shown in Myanmar (Danquah & Sen, 2022). This matches Amoako and Lyon (2014), who found that owners of exporting firms in Ghana did not go to court but used trade associations and personal contacts instead.

The same is true in Pakistan. Williams and Shahid (2016) identified that entrepreneurs there differ in how informal they are, depending on how far formal rules match the norms of the society around them. Rauf and Pervaiz (2016) showed that in the weaving sector, social networks take the place of written contracts. The bazaar is itself an institution in this account. Nawaz (2025) theorises it as a decentralised system that carries social, economic and governance activity. Khan and Syrett (2022) show that power within bazaar governance in Pakistan is unevenly held, which matters for the question of who can enforce an agreement. These studies explain how informal trade is organised. They say less about what traders do once an informal agreement has been broken.

1.2. Relational governance and its limits

Relational contract theory starts from the observation that most commercial exchange is governed by expectations built up over time, not by the terms of a written contract (Macneil, 1980). Macaulay (1963) found that even American manufacturers seldom relied on formal contracts and rarely sued. They settled disputes through continuing business relationships and the threat of losing future trade. In weak institutional settings, these relational mechanisms carry more of the load. McMillan and Woodruff (1999) found that Vietnamese firms extended more trade credit to customers who had few alternative suppliers, and to customers they knew through business networks. Amoako et al. (2021) describe Ghanaian entrepreneurs who extended credit because they knew the borrower's "house, family, and workplace." In Nigeria, shared norms and trust in indigenous institutions regulate relations between small firms (Omeihe & Omeihe, 2024; Omeihe et al., 2021).

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Relational governance also has costs. Small entrepreneurs at the bottom of the pyramid are exposed to opportunism if trust is not backed up by a legal safety net, as Pryor et al. (2023) demonstrate. Ledeneva and Efendic (2023) report on the costs of entrepreneurs' informal networking in Southeast Europe. Both have shown the same weakness. Relational governance is effective during the relationship, and ineffective once one party no longer values it. As McMillan and Woodruff (1999) observe, informal enforcement is often contingent upon the borrower's lack of alternatives, or how much they need the relationship to continue.

1.3. Legal pluralism and dispute resolution in Pakistan

Legal pluralism holds that state law is one of several normative orders operating in the same social space (Griffiths, 1986; Merry, 1988). Swenson (2018) distinguishes the ways state and non-state systems relate to each other, from open competition to formal incorporation. In Pakistan, the coexistence of these systems is well documented. Holden and Chaudhary (2013) demonstrate how state law, religious norms and custom impact daughters' inheritance. Studies of dispute resolution find that *jirgas*, panchayats, *faisla* and the state's own Dispute Resolution Councils persist largely because the courts are seen as slow, costly and corrupt (Haq et al., 2023; Khan et al., 2022; Ullah & Khan, 2021). Haq et al. (2023) describe *dareemat*, a Pashtun arbitration mechanism in Zhob. Ullah and Khan (2021) compare formal and informal routes to justice in Swat.

Most of this work concerns land, family, tribal and criminal disputes, mainly in rural areas or in Khyber Pakhtunkhwa and Balochistan. Commercial disputes among urban traders, and the forums that handle them, have received much less attention. The literature also tends to describe which forums exist and why people use them. It generally does not follow one dispute through several forums or ask why a forum worked in one case but not in another.

1.4. Theoretical framework

The study draws on three bodies of theory, and together they guided the coding described in Section 2.6. It uses them to organise the analysis and does not test any hypotheses, because the study is exploratory.

Relational contract theory (Macaulay, 1963; Macneil, 1980) addresses the relationship between the two parties. It guides the study to ask why deals were not written down and why owners first went to the other party directly. These questions are related to the agreement, the breach and the direct response.

Legal pluralism (Griffiths, 1986; Merry, 1988; Swenson, 2018) deals with forum selection. It guides the study to inquire which non-state bodies owners turned to, and why they avoided the courts.

Informal institutional theory (Helmke & Levitsky, 2004; North, 1990) deals with enforcement. North (1990) defines institutions as the formal and informal rules that limit human interaction, together with the ways these rules are enforced. Helmke and Levitsky (2004) demonstrate that informal institutions can take the place of formal ones where the state is not effective. This theory leads the study to ask which sanctions, such as loss of reputation (*saakh*), boycotts or trading bans, could make informal settlements binding.

The three theories leave one question unanswered. When does informal enforcement work? Relational governance depends on both parties valuing the relationship (Macaulay, 1963). In Vietnam, informal credit depended on the borrower's limited options (McMillan & Woodruff, 1999). Power is not equitably distributed within Pakistani bazaars (Khan & Syrett, 2022). Together, these studies suggest that a forum's authority depends on whether the other party still needs the market or community that the forum can influence. The study does not assume this condition. It is treated as an open question, and the findings report cases where forums worked and cases where they failed (Section 3.5).

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1.5. Research gap and questions

Informal entrepreneurship research shows how trade is organised without contracts. Research in relational governance explains how this form of trade can last and when it fails. The study of legal pluralism points to the reasons for the existence of non-state forums in Pakistan. These literatures have hardly been combined to follow the path of a commercial dispute once the agreement has been breached, and few studies have looked at an urban Pakistani market. This study addresses this gap with three questions:

1. When the counterparty breaks an unwritten agreement, what do small entrepreneurs in Hyderabad District do?
2. Which third parties do they use when a direct response is unsuccessful, and what sanctions do the third parties use?
3. How do these disputes end, and when do informal forums fail to lead to a settlement?

The study makes three contributions:

A process account: The study explains how disputes moved through a series of stages and forums. Informal dispute management, as a result, can be seen as a sequence of decisions made at those stages.

A condition for informal enforcement: In the cases studied, the study identifies one possible condition for informal enforcement. The more the counterparty depended on the market or community that the forum could influence, the more likely enforcement was to succeed. This is a tentative proposition.

New evidence: The study documents commercial conflicts in urban Sindh, an area that has not received much attention in the Pakistani dispute literature.

1.6. Operational definitions

Small entrepreneur. A person who owns or co-owns a small commercial enterprise in Hyderabad District, takes part in its daily running and is responsible for its financial risk. The enterprise may operate in retail, wholesale, manufacturing, repair or services. Employees and non-owner managers are excluded from this definition. One union office-holder (P15), who also runs a business, was interviewed as a key informant. This interview is reported separately.

Commercial dispute. A disagreement between commercial actors that arises from a business transaction or relationship. In this study, disputes include withheld profits and capital between partners, claims by an investor's heirs, customer non-payment, refund demands, trade-credit default and non-delivery after advance payment.

Informal dispute management. The practices through which entrepreneurs negotiate, settle or abandon a commercial dispute without recourse to the courts. Such practices include direct negotiation, fee waiving, mediation by market unions, elders or mutual contacts, political intermediaries, informal payments to officials, repossession of goods and religious oaths.

2. Methodology

2.1 Research design

The study uses a qualitative and exploratory multiple case design (Yin, 2018). The main unit of analysis is the participant's report of a commercial dispute or of a dispute pattern. Most participants recounted one dispute, beginning with the original agreement and concluding with its outcome. Others conveyed a recurring pattern or several related events. Where the account allowed, the researchers recorded the point at which the arrangement broke down, the first party approached, the pressure applied and how the matter ended. A survey can determine whether traders use courts or other channels, such as unions, political parties or community elders. However, it cannot record the same events in as much detail. Each account was analysed on its own before the accounts were compared.

The findings report the numbers of responses, third party interventions and outcomes, where the accounts made them clear. These figures describe the study's sample only. With 15 purposively selected sources, the data cannot estimate how often any route is used in Hyderabad's markets.

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2.2 Setting

Hyderabad District is in Sindh province. The 2023 census recorded 2,432,540 residents, of whom 2,022,379 (about 83%) lived in urban areas (Pakistan Bureau of Statistics [PBS], 2023). The district's main markets include Shahi Bazaar, Resham Gali, Sabzi Mandi, Tower Market and Choori Market. The glass bangle processing cluster, which supplies buyers across Pakistan, is also located in the district. Most trade in these markets runs on credit ledgers (*khata*) and spoken agreements (*zaban*), and most markets have their own traders' union (Anjuman-e-Tajiran). The district suits this study for two reasons: unwritten credit is common there, and established non-state bodies exist that traders can approach when a deal fails.

Fieldwork took place between July and September 2026.

2.3 Participants and sampling

Researchers selected participants through criterion-based purposive sampling (Patton, 2015), and snowball referrals supplemented this process. Participants had to meet three criteria:

1.The participant owned or co-owned a small business in Hyderabad District.

2.The participant should be a party to at least one commercial dispute.

3.The dispute had been handled outside the courts, through negotiation, a union, elders, mutual contacts, a political intermediary or a religious oath.

The third criterion selects on the outcome under study. The findings therefore show how informal routes operate once traders use them. They do not show how often traders choose these routes over the courts, or how disputes taken to court end.

Researchers completed 20 interviews against a target of 25. Of the 35 entrepreneurs approached, 10 declined at first contact, and five more withdrew later because of lack of time and difficult market conditions. Fieldwork coincided with a sharp rise in fuel and energy prices in Pakistan, which followed the conflict between Iran and the United States (Khan & Khan, 2026). Several traders said these pressures left them no time for an interview.

Recruitment followed two routes. Twelve participants were reached through snowball referrals that began with the divisional vice president of the traders' union (Anjuman-e-Tajiran) in Hyderabad, who is also the key informant P15. Through him, the authors contacted other market unions and then individual traders. The remaining eight participants were reached through the authors' personal contacts. Because 12 of the 20 participants came through union networks, the sample may include more traders whose disputes went to a union. Section 2.7 discusses this possibility.

The 20 interviews yield 15 sources. Fourteen interviews were analysed as individual accounts, and 13 of these came from owners or co-owners who described a dispute in which they were a party. Five of the 13 worked in retail trade (motorcycles, spare parts, a general store, jewellery and used phones). Three ran food businesses (a bakery, a school canteen and a restaurant), two worked in repair, two in beauty services and one in wholesale produce. Two of the 13 were women. P11 owns a spare parts shop and worked in partnership with the trader who dealt directly with the customer in the dispute he describes. The fourteenth individual interview was with P15, a divisional office-holder of the traders' union (Anjuman-e-Tajiran) who also runs a business. The authors interviewed him as a key informant on union mediation and boycotts, and they report his account separately from the owners' accounts.

Six interviews were conducted with actors in the glass bangle trade: a union official who also runs a business, wholesale traders, and sorting, joining and furnace subcontractors. These interviews described one interlinked supply chain, so the authors compiled them into a single thematic transcript. The study cites this transcript as one group account (P05 to P10) and does not attribute its content to individual speakers. Every count in this study uses 15 sources: 13 owner accounts, one key informant account and one group account.

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The six participants took part in the glass-bangle trade as independent operators. The bangle union introduced the authors to them. Each worked at a different point in the supply chain, including sorting, joining, and furnace subcontracting. They were included because they ran their own businesses and bore the financial risks of that work. They did not work as employees.

Table 1 Participants, disputes and outcomes

Code	Sector	Dispute type	Amount (PKR, as reported)	Informal mechanism or response	Relationship outcome	Source
P01	Motorcycle showroom	Partner fraud and default	3,000,000 invested; 1,500,000 lost	Motorcycle market union and mutual friends (failed)	Ended	Individual
P02	Bakery	Expropriation of equity and profit share	500,000 seed capital	Community elders (failed); political party intervention (successful, in exchange for a commission)	Seed capital recovered; accumulated profits and business equity not recovered; left the bakery business	Individual
P03	School canteen (woman owner)	Unagreed salary deductions from profit share	About 2,000 per day	Direct negotiation	Preserved	Individual
P04	General store	Customs seizure of goods mixed by wholesalers	About 1,500,000 over six months	Union and political mediation (failed); informal payments to customs officers; switch to legal suppliers	Ended with those wholesalers; switched to established suppliers of legal goods	Individual
P05 to P10	Glass bangle trade	Credit default; breakage and delay by processors	1,000,000 to over 10,000,000 (wholesale credit)	Union blacklist; replacement of contractors; police pressure in large cases	General pattern only: defaulters blacklisted until debt cleared; processors replaced	Group account (one source)
P11	Motorcycle spare parts (shop owner; working partner of the trader	Customer's return of goods and refund demand	About 50,000	Pashtun elders mediated on the spot	Settled; relationship not stated	Individual

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	involved)					
P12	Beauty parlour and training centre (woman owner)	Trainee default on product credit	5,000 to 15,000 per kit	Invoked a politically connected mentor's name (bluff)	Pattern: most paid; about 10% expelled	Individual
P13	Jewellery shop	Partner ouster and shop seizure	Not stated	Jewellers' association (threat of trading ban)	Ended; debt repaid in small instalments	Individual
P14	Wholesale produce	Non-delivery after advance payment (several incidents)	50,000 to 200,000 per incident	Contacts in supplier's region; loss absorbed if they fail	Pattern only; later trade limited to trusted parties	Individual (field notes, unrecorded)
P15	Divisional traders' association officer	Disputes in several sectors	Not applicable	Union and divisional association mediation	Not applicable	Key informant
P16	Restaurant	Inflated claim by investor's heirs	2,000,000 demanded; 500,000 owed	Elders (failed); paid the full demand	Paid; sold shop and relocated	Individual
P17	Vehicle repair	Refusal to pay labour charges	200 to 1,000 per job	Waived or reduced fees on the spot	Not stated in account	Individual
P18	Used phone trade	Partner fraud (claimed device failure)	300,000	Family elders	Ended; partial repayment in instalments	Individual
P19	Motorcycle and generator repair	Unpaid generator supplied on credit	85,000; about 40,000 to 45,000 lost	Mutual acquaintances (failed); self-help repossession	Dispute closed; customer relationship not stated	Individual
P20	Beauty clinic and boutique	Profit concealment and client poaching	About 1,500,000 invested, all lost	Mutual friends (failed); oath on the Quran	Ended; investment forfeited	Individual

Note. Participants reported the amounts, and these could not be verified independently. The amounts for P03, P04, P14 and P20, P04's outcome, and the nature of P11's partnership

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come from the interviewer's supplementary notes (see Section 2.4). P19 also described a second dispute. The supplier, a business in Karachi, still owes PKR 23,000, and the business relationship had already ended. P19 did not present the supplier's post-dated cheques. P15 is also a business owner, but he was interviewed in his association role.

2.4 Data collection

The interviews were semi-structured and held face to face. Participants chose Urdu or Sindhi. The guide focused on the nature of the business, its main relationships, how the dispute started, the initial reaction, the third parties engaged, the reasons for not going to the police or courts and the outcome and its effects. Each participant described one dispute in detail. Several also described a second incident, such as a theft (P11), a stolen motorcycle at a nearby workshop (P17), a stolen phone (P18) or a supplier's unpaid debt (P19). These incidents were recorded but not coded as the main case. The guide was tested with two small-scale traders in Hyderabad. The pilot required no changes, and the pilot interviews were not included in the analysis.

One author conducted all the interviews. They lasted between 20 and 60 minutes. Nineteen were audio-recorded with the participant's verbal consent. P14 did not want to be recorded, so his interview was written up from field notes the same day. It is labelled as field notes wherever it is cited.

After transcription, the interviewer added information from memory on five cases: the amounts for P03, P04, P14 and P20, P04's later change of suppliers, and the nature of P11's partnership. These additions appear as separate, dated notes at the end of the relevant transcripts and are identified in the note to Table 1.

2.5 Transcription and translation

The authors used noScribe and QuadQoder to transcribe, translate, and analyse the qualitative data. All 19 recorded participants consented to transcription and translation of their recordings for analysis.

Machine transcription and translation introduce errors, particularly with regional speech, mixed Sindhi and Urdu, and trade vocabulary. The author who conducted the interviews checked the transcripts against the audio and corrected the errors found. Every passage quoted in the findings was checked against the audio. Local terms with no exact English equivalent, including *zaban*, *khata*, saakh, *izzat* and *faisla*, are kept in romanised form, set in italics and glossed on first use.

2.6 Analysis

The analysis followed the six phases of thematic analysis described by Braun and Clarke (2006): familiarisation, initial coding, searching for themes, reviewing themes, defining them, and writing up. It was carried out in two steps.

In the first step, each account was coded for the same five elements. These were the breach, the initial response, the forum or third party, the sanction or pressure and the outcome. Some codes came from the framework, such as relational trust, forum choice and enforcement. The rest of the codes came from the accounts themselves, such as waiving the fee, substituting the partner, recovering money for a commission and swearing on the Quran. The elements of each case were entered into a case matrix. Table 1 provides a simplified version of this matrix.

In the second step, the cases were compared. Each column of the matrix showed which responses and forums recurred and which did not. It also showed what the participants did following a failure. The analysis identified a sequence of six stages that occurred in most of the accounts: the unwritten agreement, the breach, the direct approach, the choice of a third party, sanctions and the outcome. Each account was checked for these stages, and the order in which they occurred was noted. The study treats the sequence as a tendency across cases, not a fixed procedure. Four cases departed from it. P03 settled her dispute at the negotiation stage and kept the partnership. P18 ended his partnership during the first argument and only then went to the family elders to ask

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them to return his money. P04's loss was due to customs raids, and the wholesalers who caused it were never brought before any forum. P13 went straight to the jewellers' association without negotiating directly. These four cases appear in the findings and were kept in the analysis.

All accounts were coded by one author. The second author checked the codes and the case matrix against the transcripts, and any disagreements were resolved through discussion. Codes from QuadQoder were entered into a spreadsheet, and this spreadsheet was the case matrix.

Following Guest et al. (2006), we checked for additional stages or mechanisms in later accounts. Most accounts included the broad stages. Several mechanisms appeared in only one account. These were recovery through a political party for a commission (P02), a bluff using a politically connected mentor's name (P12), payment of an inflated demand (P16), repossession of goods (P19) and swearing on the Quran (P20). We make no saturation claim for the range of mechanisms. A larger sample would likely identify more.

2.7 Trustworthiness and reflexivity

Credibility (Lincoln & Guba, 1985) was addressed in four ways:

- Accounts of the same practice were compared. P15's description of union boycotts was compared with the bangle group account and with P13's experience of the jewellers' association.
- Disconfirming cases were reported. Cases that did not fit the sequence appear in the findings.
- Figures for P03, P04, P14 and P20, and details of P11's partnership, come from dated supplementary notes written after transcription, as the Table 1 note records.
- Non-interview material was labelled. Material from field notes or supplementary notes is marked wherever it appears.

Dependability was supported by an audit trail made up of the anonymised transcripts, the dated supplementary notes and the coding spreadsheet. These files are stored on a password-protected computer held by the authors and are available on reasonable request. Transferability is limited. The study covers one district and mainly urban markets, with 15 sources, several of them reached through union networks. The findings describe these cases in detail. They cannot be read as measures of practice across the sector.

Both authors have business links to Hyderabad's markets through a family wholesale business, and they first knew the divisional vice president of the traders' association (P15) through these links. These ties may have eased access to traders and unions, and some participants may have spoken more openly to an interviewer they saw as part of the market. However, the same ties might have lessened participants' willingness to criticise unions or other traders. Recruitment via P15 may also have influenced the way in which participants discussed union mediation, leading them to present it in a more positive light. To limit this, accounts that showed unions failing (P01, P04) are reported alongside those where unions succeeded, and P15's description of union practice is treated as one view among others.

2.8 Limitations of the data

Disputes are reported from one party only. Counterparties and mediators were not interviewed, and union records were not consulted. The accounts show how participants understood and remembered events, and some may present the participant's own behaviour in a positive light.

All accounts describe past events, and memory may have changed some details. P02's dispute occurred in 2002 and 2003, more than 20 years before the interview. As a result, his account is likely to be the least reliable in the sample.

Combining the six bangle trade interviews into one transcript means that differences between actors in that supply chain, such as between wholesalers and subcontractors, cannot be traced to individual speakers. P14's account rests on field notes. Information for five disputes comes from notes added after

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transcription. Neither source can be checked against the audio.

Transcription was carried out through noScribe, which runs locally on the authors' laptops. Recordings were not shared with any external provider. Transcription and translation errors are possible, and the checks described in Section 2.5 address them only in part.

2.9 Ethics

The authors took several steps to safeguard participants. Since there was no ethics review committee available, no formal review was requested. Before each interview, the participants were read a consent statement in Urdu. They were informed about the purpose of the study and that participation was voluntary. They did not have to name any other person or company, and they had the right to refuse to answer any question. The interview would be recorded only with their consent, their identity would be kept confidential and they would have the right to withdraw from the study at any time before publication. Several participants had limited literacy skills, and some did not want to sign documents, so verbal consent was obtained. Participants were informed that the recordings would be transcribed with noScribe and stored on the password-protected hard drives of the authors' laptops, and that only the two authors would have access.

Several accounts included reports of paying customs officers, police pressure without a formal complaint, trade in goods without customs clearance and pressure by political actors. The authors replaced the participants' names with codes P01 to P20 to protect them. They deleted the names of counterparties, partners, officials, political parties and influential people. Shop locations are reported only by market type. The authors generalised details where a combination of business type, market and event could identify a participant.

The audio recordings were kept on the password-protected laptop of the author who interviewed the participants. Only the two authors had access to this laptop. The file that contains the participant codes and names is stored separately from the transcripts. The authors will retain the recordings for one year after publication so that quoted material can be checked, and will then delete them. The anonymised transcripts will be kept and are available from the corresponding author on reasonable request.

3. Findings

The numbers in this section are based on the 13 owner accounts. The two additional sources used are the key informant account (P15) and the bangle group account (P05 to P10). They both describe how unions resolve disputes. Wherever each source is cited, it is labelled accordingly and is not included in the counts. Table 2 identifies each owner's dispute, from initial response to outcome. The section is based on the six stages outlined in the analysis. The account of the bangle trade is completed in Section 3.6, and the cases which did not follow these stages are described in Section 3.9.

Table 2 The course of each owner's dispute

Code	Counterparty	First response	Third party approached	First third party failed?	What followed	Relationship outcome
P01	Partner	Direct demand for repayment	Market union; mutual friends	Yes	Loss absorbed; half recovered earlier as stock	Ended

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P02	Partner	Request for profit share; approach to partner's son	Elders in the community; later, a local political party	Yes	Original PKR 500,000 recovered through political intervention	Ended; principal recovered, profits lost
P03	Partner	Direct negotiation	None	Not applicable	Not applicable	Preserved
P04	Wholesalers	Confrontation during raids	Traders' association; political figures	Yes	Payments to customs officers; change of suppliers	Ended with those wholesalers
P11	Customer	Agreement to take goods back	Pashtun elders	No	Not applicable	Settled; relationship not stated
P12	Trainees	Mentor's name invoked (bluff)	None	Not applicable	Persistent defaulters expelled	Pattern only
P13	Partner	Not described	Jewellers' association	No	Not applicable	Ended; instalments
P14	Suppliers	Direct follow-up	Contacts in supplier's region	Sometimes	Loss absorbed when contacts failed	Pattern only
P16	Investor's heirs	Offer to pay the actual balance	Market elders; mutual contacts	Yes	Full demand paid; shop sold	Exit
P17	Customers	Compromise on the spot	None	Not applicable	Not applicable	Not stated
P18	Partner	Argument; partnership ended	Family elders	No (partial repayment)	Not applicable	Ended; instalments
P19	Customer	Repeated visits and requests	Mutual acquaintances	Yes	Repossession of the generator	Dispute closed
P20	Partner	Confrontation	Mutual friends	Yes	Oath on the Quran	Ended; investment forfeited

Note. P14's testimony details a number of instances and is based on unrecorded field notes.

3.1 Stage one: An unwritten starting point

All disputes stemmed from an agreement that did not have a formal written contract. Eleven used only oral contracts (zaban), cash or informal credit. A few participants had some record of the transactions, such as a handwritten note or a bank transfer. This evidence was not always followed by recovery, as described in the accounts. There were two partial exceptions, but neither proved successful. P13 kept a handwritten record and cheques. P13 said the record was "not formally drafted and not legally drawn up in a way that can be presented in a court of law." P14 held

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bank transfer records, but no written terms for delivery were recorded.

The participants gave explanations for the lack of documentation primarily in personal terms. It was friendship for P01. He invested PKR 3,000,000 in a partner's instalment business without any document. In his words, "The reason we didn't do any paperwork for the PKR 3,000,000 investment was that he was a friend and an acquaintance." P02 mentioned literacy: "Neither of us was educated, so we relied entirely on mutual trust (bharosa)." P18 decided that his phone deal was not so significant that it warranted documentation: "We didn't go so far as to make any written agreements as we saw it as a small-scale, flexible business between trusted acquaintances."

3.2 Stage two: Three kinds of breach

The unwritten deals broke down in three types of relationship. Seven of the 13 disputes involved a partner or investor (P01, P02, P03, P13, P16, P18, P20). Four involved customers (P11, P12, P17, P19), and two involved suppliers (P04, P14).

Partner disputes were the most common and the highest-value type of dispute. P01 lost PKR 1,500,000, and P20 lost about the same amount. P16 paid PKR 2,000,000 against a balance he put at PKR 500,000. Customer disputes were much smaller. The smallest involved labour charges of PKR 200 to 1,000 (P17), and the largest involved a generator worth PKR 85,000 (P19).

The structure of the partner disputes was similar. One partner provided the capital, and the other managed the business on a daily basis. In five of the seven (P01, P02, P13, P18, P20), the partner who ran the business withheld the investor's money, assets or profit share. Social norms were also an element of control. P20 was a male investor in a ladies' hair salon. Because of local customs, his operating partner handled all the customer service. She "began redirecting clients to deal with her directly via personal phone contact, effectively stealing the business's goodwill and client base."

3.3 Stage three: direct approach first

When a breach was apparent, the owners almost always went to the other party first. In 12 out of 13 accounts this was the case. P13 was an exception: he went from being ousted to the jewellers' association. These direct approaches included repeated, patient requests. P19 described how often he visited the customer's farmhouse to retrieve the unpaid generator: "I left my shop and went to his farmhouse at least 50 times." P16 offered the investor's heirs the sum of PKR 500,000 that he felt was still due to the investor, along with the investor's share of profit. They refused.

At this point there were three disputes that ended. In each, the owner surrendered some value or kept the future value of the other party's business, or put pressure on the other party. P17 said that he had dropped some of his labour charges: "It's better to make a small sacrifice and move on than to escalate it." P03 retained her partner under revised terms, but she could have bought him out: "I chose to retain him as a partner out of gratitude because he supported me when no one else backed my business idea." P12 was dealing with trainees who were unwilling to pay for their product kits. She told them that the stock was from a mentor who had political connections. The mentor was not involved in any way. P12 herself called this a "bluffing strategy": "The mere invocation of this politically connected mentor's name convinces most trainees to clear their dues immediately." About 10% still refused and were expelled from the training centre.

3.4 Stage four: choosing a third party

Ten owner accounts reported involvement of a third party. In nine of these cases, the third party had been introduced only after direct contact had failed to resolve the conflict. The exception was P13, who did not negotiate directly with his former partner but went straight to the jewellers' association (see Section 3.3). The choice of third party was based on the position of the other party. When both parties traded in the same organised market, owners went to that market's union or association (P01,

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P13). P04 went to the traders' association about the customs raids. Owners would seek the elders (P11, P18) or first try elders (P02, P16) if the other party was from the same neighbourhood, community or family. In other instances where the other party was far away or a friend, owners relied on mutual contacts (P14, P19, P20 and P01 in conjunction with the union). There were two accounts of political actors. In P02, a party got the owner's original capital back in return for a commission. In P04, political actors attempted to settle the matter, but they did not succeed.

The unions' own statement regarding their work corroborates the owners' accounts. "When a case comes to the union," P15 said, "we listen to both parties and try to settle their dispute" (P15, key informant). The bangle union curtails supply from local manufacturers: "The union instructs all local manufacturers: 'No one will supply goods to this buyer until the outstanding debt is cleared'" (P15, key informant). The same boycott is described from the traders' point of view in the bangle group account (P05 to P10, Section 3.6). That account also claims that union arbitration is successful 70 to 90% of the time, although it does not offer any basis for the range of the success rate, so that number is not considered in this section.

3.5 When the first third party failed

There was no guarantee of results when turning to a third party. In 6 of the 10 cases, the first third party failed (P01, P02, P04, P16, P19, P20). In P14, local contacts retrieved the items in some cases and not in others. The central question in these narratives was whether the other party still had a need for something the third party controlled.

If the need was there, the third party was effective. P13's former partner went on trading in the same jewellers' market, and the association threatened him "that if he failed to pay me back, he would not be allowed to conduct business or trade within the jewellery market." In response, P13 said, his former partner agreed to pay. P11's customer resided in a close-knit Pashtun neighbourhood. The customer's own elders resolved the issue at the scene and avoided police involvement. This is also true of the bangle trade on a national level: "Since Hyderabad holds a monopoly on glass bangle manufacturing, the buyer is forced to settle their debt" (P15, key informant; see also Section 3.6).

The third party failed because the other party could leave or drew its power from outside the market. P01's partner did not even appear: "He wouldn't even come out of his house to meet or sit down with us." The power of P02's partner had increased as the business had grown: "Because the bakery had grown so large and his local socio-political influence was now formidable; market elders had no leverage over him." P16's investor's heirs were "political figures" and "no one would tell them what to do or what not to do." According to the mutual acquaintances in P19, the customer was a "rich man" who "was refusing to engage in any dialogue." In P20, the mediation between friends broke down into "arguments and internal divisions among the mediating friends themselves." The loss in P04 was a result of the customs raids, which no traders' body could prevent. Mediation was unsuccessful, and "the raids went on from time to time." In general, P01 said, "If an influential person stands up for someone, the issue gets resolved. If a poor or powerless person has no backing, their money simply sinks."

After the failure, the six owners split evenly. Three chose responses that did not require the consent of the other party: P02 hired a political party, P04 paid customs officers and P19 took back his generator himself. The other three absorbed the loss. P01 took the remaining loss, P16 paid the full demand and P20 forfeited his investment after the oath.

3.6 The glass bangle supply chain (P05 to P10)

Both ends of one supply chain can be seen in the bangle trade. The six interviews about the bangle trade are not included in the counts, as they describe the way the trade itself resolves conflict. The interviews span the entire process of making bangles: a union representative, sorting workers (chatai) who sort and remove the broken pieces from the bundle (toras),

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joining workers (jurai) who weld the bangles that are open at their ends, and furnace operators (karkhanedar) who bake the finished product. The wholesalers finance each production cycle. They purchase raw materials from the factories and pass them through a chain of subcontractors. They then sell the completed bangles to customers all over Pakistan.

All of these links are credit-based. Usually wholesalers trade on seasonal credit (udhar), with post-dated cheques or electronic payment. For instance, Eid stock is sent weeks in advance and settled at the end of the season. Wholesalers pay subcontractors on a weekly basis (on Thursdays). The group account states that in 20 years the production volume has decreased by 40 to 50%. It also notes that the price of a finishing chemical that uses gold has increased from PKR 50,000 to PKR 300,000 per vial, which has forced smaller traders out of the high-end segment. There was no other source for either of these numbers, and the paper treats them only as the participants' estimates.

The nature of a dispute varies depending on the parties' place in the chain. The clashes at the top of the chain, between wholesalers and far-away buyers, have to do with credit lines of PKR 1,000,000 to over PKR 10,000,000 for the duration of the season. Traders go out to get what they are owed (wasooli) and some payments were reported as delayed by two to three years. The Choori Market union deals with these by blacklisting the defaulting buyer, with the help of a network of unions in other cities and provinces. The reason this works is that the city of Hyderabad is the primary supplier of glass bangles in Pakistan, so a blacklisted buyer will not have a place to purchase stock. For debts exceeding PKR 10,000,000, wealthy traders are reported to resort to the pressure of the police against the debtor without even lodging a formal complaint (bina-FIR pressure), rather than appearing in court.

Further down the line, the disputes between wholesalers and subcontractors are over breakage, missing bundles and late work. They are resolved every Thursday, usually without any third party. If the wholesaler is not satisfied with the subcontractor, he transfers the work to another workshop (karkhana) that is competing. The account presents this as an immediate deterrent, as subcontractors are reliant on a steady stream of work.

The two ends of the chain repeat the finding of Section 3.5. On the wholesale side, it is the union that has the power, as a defaulting buyer still needs Hyderabad's bangles. At the workshop end, the wholesaler has the power, as many workshops bid for the same work. The subcontractors are in the weakest position in this structure. The account tells of the discipline of subcontractors by wholesalers. It does not provide information on what a subcontractor can do when a wholesaler pays late or not at all. It is possible that the subcontractors did not speak about this because of their weak position, or it is possible that this was lost when the six interviews were edited into a single transcript.

The account of the avoidance of the courts points the same way. Legal costs and delays are said to eat up too much of the claim in cases where the amount in dispute is between PKR 1,000,000 and 2,000,000. Formal legal costs are only affordable to traders who are owed PKR 10,000,000 or more, but even these traders often resort to the pressure of the police rather than appearing in court (see above). The workshop level relies less on formal written evidence and more on trust and weekly credit books (khata).

3.7 Stage five: Sanctions and reputation

Informal enforcement was based on targeted sanctions. The accounts name six: a threatened ban from trading (P13); a supply boycott (P15, key informant; P05 to P10, group account); replacement of a subcontractor's workshop (P05 to P10, group account); expulsion from training (P12); coercion by a political party (P02); and repossession of goods (P19).

However, reputation (saakh) was another, indirect form of sanction, and it operated in two ways. It could act against a defaulter. When P01's partner went bankrupt, "people in the

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market still curse him." More often, however, it held back the claimant. P15 gave a reason why traders stay out of courts: "If word gets out that a trader is entangled in litigation, their market reputation is ruined, trust dissolves, and no one will do business with them." This is echoed in P14's field notes. He shied away from public quarrels, as they destroy trust, irrespective of who is at fault. Partly, P16 said, it was "to protect my broader business reputation" that he paid the inflated demand. For the same reason, P12 took losses on clients who were not satisfied with the parlour. Here, the fear of losing reputation was more likely to cause the owners to take losses than to make the defaulters pay.

3.8 Stage six: outcomes and avoidance of the courts

Disputes ended in a number of ways, but full recovery was rare. In six of the 13 owner accounts, the relationship ended (P01, P02, P04, P13, P18, P20). One owner paid the demand, sold his shop and moved (P16). One owner saved the partnership (P03). The other five accounts reported no clear outcome or only a general pattern (P11, P12, P14, P17, P19).

Not one of the seven owners who ended the relationship or exited got the full amount that they felt was owed to them. P02 got back his own PKR 500,000 but did not get a share of the profits from a bakery that later became a provincial brand. He then left the bakery business. P13 and P18 received the repayments in small instalments, and both said that the money went on household spending. P13 explained: "The capital was consumed by the daily life needs and there was no sufficient capital for reinvestment because the money came in slowly." His assessment of the jewellers' association was direct: "It prevents total ruin, but it rarely makes the victim whole."

Owners cited a number of reasons for not going to the police or the courts. Cost and lost working time were cited most often, in 7 of the 13 accounts (P02, P04, P12, P14, P17, P18, P19). P18 calculated dispute cost at "PKR 50,000 to PKR 60,000 in legal fees and official overhead" for a dispute of PKR 300,000. Four owners had no written proof (P01, P02, P04, P16). Two feared a powerful other party (P16, P19). P19 said, "I didn't go to the police because that man is wealthy and influential." Two others mentioned corruption or harassment by officials (P14, P18). A number of owners gave more than one reason.

Sources differed on the point at which courts become worthwhile. P15 (key informant) said that the courts are only used in very big disputes and gave "a dispute that involves PKR 50 million" as an example. The bangle group account (P05 to P10) sets the point much lower. Only traders owed PKR 10,000,000 or more could afford legal expenses, it reports. It also claims that even such traders would rather use police pressure than file a court case (Section 3.6).

Documents decided whether an owner could make use of state enforcement. This is reflected in P01's account. His partner had also defrauded approximately 20 other showroom owners. Those who had written contracts "took the police to his house and had him arrested," and he was compelled to pay them back. P01 didn't have any document and lost his money: "I suffered because of blind trust ('main bharose mein mara gaya')."

3.9 Cases that departed from the sequence

The six stages are the usual pattern. There were four accounts that departed from it.

P03 ended up retaining the partnership under revised terms. She had one thing that the other owners did not have, a formal letter of permission from the school. This permission prevented her partner's daughter from selling in the canteen and helped P03's case in negotiations. The order of the last stages was reversed for P18. He ended the partnership during the first argument and only afterwards asked family elders to recover his capital. P04's wholesalers were never held to account by any forum. There were no cases brought before the association regarding wholesalers who mixed uncleared goods in deliveries. The dispute shifted to customs officials, and P04 avoided further losses by sourcing elsewhere. As he described it, the wider problem remains in the

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market. P13 indicated that he did not go through any negotiations but went straight from the ouster to the jewellers' association.

4. Discussion

This study followed each commercial dispute to outline its development and how it came to an end among small entrepreneurs in Hyderabad. The results address the three research questions. As for the first question (RQ1), the data indicated a strong preference for direct negotiation. In three instances, it was able to settle the dispute immediately. If the direct negotiation was unsuccessful, the choice of third party (RQ2) was influenced by the market and community position of the counterparty. The outcomes (RQ3) show that informal enforcement is sensitive to the counterparty's ability to exit the local market or to draw on outside power. In such a case, the claimant often incurred a substantial financial loss.

The discussion that follows looks at each of these themes in turn, followed by a reflection on implications for policy and the limitations of the study.

4.1 Relational contracting after the relationship has ended

Relational contract theory explains how these disputes began. Because of friendship, low literacy and small scale (Section 3.1), owners left deals unwritten. When a deal fell through, the owner first tried to contact the other party, which was the case among American manufacturers as noted by Macaulay (1963). Ghanaian exporters (Amoako & Lyon, 2014) as well as Pakistani weavers (Rauf & Pervaiz, 2016) report the same reliance on personal relations in place of written contracts.

The theory explains how these disputes ended less well. Relational contracting depends on the assumption that the contracting partners are interested in future dealings and want to make things right (Macneil, 1980). In this sample, only P03 was able to mend the relationship. Most of the disputes occurred in partnerships where one partner invested capital and the other operated the business. When the operating partner controlled the business, the relationship became a concern only for the investor. P02's partner had built a provincial brand and was no longer in need of him. P20's partner kept the clients, and P13's partner kept the shop. In such instances, relational governance protected the partner that was operating the business. The investor received less protection. It is risky to trust without a legal safety net (Pryor et al., 2023) and the costs of informal networks are less obvious (Ledeneva & Efendic, 2023). The investors in capital-for-labour partnerships suffered most of the losses in this sample.

4.2 Choosing a forum by the other party's position

Legal pluralism is a description of multiple normative orders in parallel (Griffiths, 1986; Merry, 1988). The findings show how traders chose between them. Traders did not choose freely among forums. Unions, elders and mutual contacts were all chosen in response to the other party's position, the union for someone in the same market, elders for someone in the same community and mutual contacts for someone far away or a friend (Section 3.4).

The line between state and non-state ordering was also not as clearly defined as the framework envisioned. There were state agents in the accounts, but they operated informally. P04 paid the customs officers to avoid raids, while the bangle traders used police pressure without lodging a complaint. As Swenson (2018) describes, state and non-state systems overlapped in this sample. State officials took part in informal order. This same overlap is reflected in the Pakistani studies on inheritance and justice (Holden & Chaudhary, 2013; Ullah & Khan, 2021). Elders from a Pashtun neighbourhood reached a deal over a business dispute in a shop in Hyderabad (P11). This case links urban commercial disputes to the community arbitration studied in rural and northern Pakistan (Haq et al., 2023; Khan et al., 2022).

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4.3 When informal enforcement works

The main result concerns the circumstances under which informal enforcement is effective. Helmke and Levitsky (2004) argue that informal institutions can replace formal ones when the state fails to do its job. The results qualify this assertion. Substitution was most likely to be successful when the other party was reliant on the market or community that the forum could influence. The jewellers' association could threaten a trading ban because P13's previous partner still traded in that market. The bangle union could force distant buyers to pay because Hyderabad is the primary source of the bangles. P11's dispute could be resolved by Pashtun elders since the customer was from their community.

Where that dependence was missing, the forum failed. P01's partner withdrew from the market and P02's partner outgrew the market. The heirs in P16 and the customer in P19 relied on politics and wealth outside the market. In P04, the state itself was the source of the loss. The pattern corroborates McMillan and Woodruff's (1999) observation that informal credit in Vietnam depended on borrowers having few alternative suppliers. The present findings apply that result to the enforcement of payment after a breach. They also illustrate Khan and Syrett's (2022) argument that power in Pakistani bazaars is unevenly distributed.

Dependence runs in both directions in the bangle trade (Section 3.6). The union is powerful at the buyers' end and wholesalers are powerful at the subcontractors' end as they move work to other workshops. The informal governance in the group account seems to be a safeguard for those who have the control of market access rather than for those who require it. That claim is based on one unverified account. When forums failed, two owners made payments (P02 and P04), one took back his goods himself (P19) and three owners gave up their claims (P01, P16, P20). In P02, the political party recovered the principal in return for a commission. That is the one case in which recovery might be purchased. P04 paid off customs officers and thus prevented raids. The payments did not recover a debt, so they do not demonstrate enforcement being purchased. P19's repossession was not a purchase. It was self-help, and the paper treats it separately.

This finding is based on 13 one-sided accounts and has not been tested. It is best expressed as a proposition: an informal forum is more likely to secure payment as the other party's reliance on the market or community that the forum can influence grows.

4.4 Reputation as a restraint

Informal institutional theory views reputation as a form of enforcement, in which a defaulter pays to maintain his reputation (North, 1990). The accounts reveal reputation working mainly in the reverse direction. It restrained the claimant more often than it punished the defaulter (Section 3.7). A public dispute undermined the standing of both parties. As P15 said, a trader who is "entangled in litigation" loses the trust of the market. Owners consequently absorbed losses quietly (P12, P14), or paid excessive demands (P16) to stay out of view. In Ghana and Nigeria, research on the norms of small firms reveals how shared expectations regulate trade (Amoako et al., 2021; Omeihe & Omeihe, 2024; Omeihe et al., 2021). The 13 owner accounts include three accounts where reputation is a reason for absorbing losses (P12, P14, P16). It appears as direct pressure on a defaulter in one case, the jewellers' trading ban in P13, though that ban works through the association rather than through reputation as such. In P01's case, reputation punished the defaulter, as "people in the market still curse him," but this did not result in payment. The pattern is suggestive, and it is based on few accounts.

4.5 Documents and access to the state

The most frequently cited reason for not going to court (7 of 13) was cost and lost working time, followed by a lack of written proof (4 of 13). According to P01's account, documents were more important than cost alone. Creditors of the same partner who held written contracts called the police and were repaid. P01 had no document and took a loss. P03's evidence on this point is weaker. She did not go to the state

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to resolve her issue but negotiated it. Williams and Shahid (2016) describe entrepreneurs in Pakistan as partly formal and partly informal. P01's account is the clearest case in which a document opened access to the police. This point rests on one case.

4.6 Implications for policy and practice

Based on the above patterns and participants' accounts, the following implications were drawn. They have not been tested.

Participants themselves proposed simple documentation. P01 proposed that there should be written agreements signed by four people (two on each side). P02 requested "simple, low cost means of ratifying and registering verbal agreements with witness". A one-page Urdu and Sindhi agreement template could give effect to that request. It could be distributed by market unions or a body like the Small and Medium Enterprises Development Authority (SMEDA), but whether these bodies would do so is untested.

A small-claims procedure that accepts informal records, including handwritten receipts, bank transfers and phone messages, could alleviate the cost problem seven owners said they had. For instance, P14 maintained records of bank transfers but could not justify the cost of using them in court.

Registering union settlements could make them enforceable. The results call for caution. Union strength was greatest where the parties already depended on the unions, and formal recognition might further strengthen those who control market access. Such a scheme would need safeguards for weaker parties, such as the subcontractors in the bangle trade.

P15 mentioned that the provincial Ombudsman (Mohtasib) is little known and has no power to enforce its decisions. Attention to existing bodies may be necessary before new ones are created.

4.7 Limitations and future research

This study has described the process in detail, but it has several methodological limitations. First, each dispute is reported from one perspective, which means that results reflect the perception and memory of the claimants. They do not reconstruct events from the standpoint of all parties. Second, recruitment through union networks means that formal market unions may be more prevalent in this sample than among entrepreneurs more generally. Finally, given the qualitative nature of the research and limited number of cases, the results provide an initial proposition that informal enforcement depends on the other party's dependence on the market. Results are not yet generalisable. Future work should involve interviewing both parties to the same dispute and testing the dependence condition on larger and more varied samples. It should also consider the experiences of women entrepreneurs and subcontractors in the supply chain.

5. Conclusion

This study shows how small entrepreneurs resolve commercial disputes in Hyderabad through a recurring sequence, though the order of responses varies across cases. Owners first tried direct negotiation. If this did not work, they brought in a third party. The informal process is constrained by power in the market. Informal means settled some disputes, but when the other party could move away from the market or draw on political and economic power from outside it, informal settlements fell apart. Without written contracts, claimants bore the cost of these breakdowns through large financial losses or the end of business relationships.

This study contributes to research on informal entrepreneurship and legal pluralism. It provides a process account of commercial disputes in urban Pakistan. It suggests that the other party's reliance on the local market is a possible condition for informal enforcement, and this should be tested in future studies.

Declaration of AI use

The authors used Claude (Anthropic) only for language editing. The research idea, data, theory, methodology and analysis are the authors' own. The authors reviewed all edits and take full responsibility for the content of this paper.

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