

MOSES OSOFERO: PAPER PROPOSAL

TITLE: ENTREPRENEURSHIP, INFORMAL ECONOMY, AND INSTITUTIONS: A REVIEW

INTRODUCTION

For five decades, studies on the informal economy have continued to grow. From the very first mention of the term informal sector by Hart (1973) in a study in Ghana to other follow up studies (see Sethuraman 1976), the importance of the informal sector both on economic development and unemployment/underemployment policies have been identified. These initial studies present the informal economy as being characteristic and predominantly found in developing economies with regular references to Africa (Hart, 1973; Sethuraman, 1976). They also come with a distinction that categorises participation in the formal economy as being wage earning and informal participation as majorly self-employment.

While there are obvious limitations in these studies, they are important for the current studies on informal entrepreneurship. The initial generic classification of wage-earning for formal economy and self-employment for informal economy, and of informality as being characteristic of developing economies have been challenged by later discoveries by recent scholars. There has been strong evidence of the pervasive nature of informal economic activities across the globe, though at varying degrees and in differing dimensions. From the immigrant in Europe (Djajic & Mesnard, 2013) to the wage earner in Ghana with an undocumented 'side-Hussle' (Hart, 1973), to the employees in south-eastern Europe who receives their wage in two forms (documented and undocumented/enveloped) from the same employer (Williams, 2010), the multinational oil organizations buying stolen crude oil from oil thieves operating in the Niger-Delta region of Nigeria (Shepherd, Osofero & Wincent, 2021),

and the CEOs of multinational organizations in developed economies who outsource part of their business operations to non-tax-paying organizations in Asia and Africa (XXXX,XXXX). The informal economy has simply flourished, pullulating in dimension, forms, degree and even contexts of operation. The current literature on entrepreneurial activities in the informal economy (referred to as informal entrepreneurship in this paper) is diverse (understandably so because of how entrepreneurship studies cut across various other fields of study). This, thus, leaves us with many fragmented studies on informal entrepreneurship with little or no articulated account of these studies and how they can stand as a strong befitting foundation on which new further studies can be carried out and policy decisions can be hinged.

WHY THIS STUDY?

With informal economy accounting for between 50 to 75 percent of non-agricultural employment in developing economies (Bruton, Ireland & Ketchen, 2012), 17% of GDP in developed countries and 40% of GDP in developing countries (Webb et al., 2009). There is need for more to be done in the studies of informal entrepreneurship. This is required to better explore the role of informal entrepreneurship in economic development and how government across the globe can respond to get the benefits that this sector offers. A positive outlook towards informal entrepreneurship can potentially provide a way forward in tackling economic and unemployment challenges as against the general view of informal economic activities as ‘economic saboteurs which is so presented in much mainstream research. Further (more focused) studies in the field become difficult as studies continue to emerge in the field, but in very fragmented manner. Thus, the field generally lacks carefully crafted foundations on which further studies can be progressively built. This paper aims to provide a systematic review of the previous studies on informal entrepreneurship as affected by institutions and institution factors. Thus, providing a clear and firm foundation on which further studies can be built. While we review various reasons and motivations for involvement in informal entrepreneurial

activities, the review has found an underlying and unify factor which also serves as the theoretical lens through which the study is performed: Transaction cost (North, 1987)

Engagement in informal entrepreneurship has been motivated by factors including costs of business registration, membership of trade associations or professional bodies, legal requirements, office space, approved technology, hiring and firing, contracting, tax burden, information, trainings etc. These costs are a direct result of institutionalism and they on one hand directly increase the costs of transacting business (North, 1987). Affordability is a major concern for a group (especially of individuals in developing economies). Second, there is the group that would consider bearing these costs and going through the required processes but are faced along the line with either bureaucratic systems that frustrate their intentions or corrupt systems that further increase these costs significantly.

INFORMAL ECONOMY/INFOMAL ENTREPRENEURS

Informal entrepreneurship generally refers to economic activities carried out by individuals or organizations without official records or hidden to the legal systems or taxation systems of the countries where they operate (Alicia & James, 2018; Prado, 2007; Siqueira, Webb & Bruton, 2016; Williams, 2010; Gërxhani, 2004; Keith, Niloy & Salvatore, 2010). Notable in the study of informal economy are the main actors, the informal entrepreneurs.

Due to their global nature and economic influence at all levels, activities by these actors in the informal economic sector have attracted attention from both academic scholars and governments (Enrique & Carlos, 2019; Mbaye & Dinardi, 2019; Collin & Sara, 2012; Terence, 2012). Scholars and governments alike recognise the significance of these activities on economic development and government planning (Williams, 2010; Terence, 2012; Alicja & James, 2018; Friedman, Johnson, Simon, Kaufmann, Daniel & Zoido-Lobaton, 2000; Williams & Nadin, 2012). The level of informality found in an economy serves as an indicator

for level of economic development, effectiveness of government economic policies, unemployment figures and the general socio-political environment expected in such nation (Enrique & Carlos, 2019; Gabriel, 2018; Siqueira, Webb & Bruton, 2016; Williams, 2010).

METHODS

Articles used for this review are sought from the EBSCO database which is a comprehensive database of peer-reviewed articles published in leading journals globally (XXX, XXX). To ensure all related articles are included in the search, a broad list of terminologies used in describing informal economy is included in the search (see table XXX), combined with institution. The initial search returned 2,710 items. The result was further limited by articles published in ABS 3 and above rated journals to ensure high quality in the choice of articles reviewed. This resulted in corresponding 365 items. These were further limited by title and abstract to give 48 items used in this review. Excluded from the article list are articles that are gendered and non-profit oriented. While these articles discuss informal entrepreneurial activities through various lenses, commonly found in the literature is the interaction between informal activities and formal institutions through the theory of transaction cost.

Building on this review, the paper will recommend areas for future research. I believe this will help researchers especially and practitioners to easily pinpoint areas of interest, discover what has been done so far in such areas, and how they can contribute to the current discussion in such areas (for researchers) and apply the provisions in the literature for practice.

DIVERSITY IN STUDY OF INFORMAL ECONOMY

Though in varying degrees and forms, these activities are found in most countries of the world, either developed, or developing, thus, it is a global phenomenon worthy of further studies. This ubiquitous nature of informal entrepreneurship is evident in the variety of nomenclatures by which it has been described, to mention just a few: **shadow economy** (Axel

& Schneider, 2006; Marè,, Motroni, & Porcelli, 2020; Benno, Schneider & Christoph, 2008; Dreher, Méon & Schneider, 2014; Teobaldelli & Schneider, 2012), **informal economy** (Prado Jr., 2007; Alicja & James, 2018; Mathias, Sean, Russell, Chad & Russell, 2015; Terence, 2012; Viswanathan, Sridharan, Ritchie, Venugopal & Jung, 2012), **underground economy** (Djajić & Mesnard, 2015; Marè, Motroni & Porcelli, 2020; Benno, Schneider & Christoph, 2008; Dan, Alessandro & Umberto, 2003), **unregulated sector** (Gërkhani, 2004), and **undocumented economy** (Djajić & Mesnard, 2015.). Fig. XXX or Appendix XXX gives a more comprehensive detail of the nomenclatures. Whereas, these different nomenclatures, one common characteristic is that these activities generate income, and they are hidden from the government and systems put in place to regulate such economic activities.

Interest in studying entrepreneurship in the informal sector cuts across all contexts of research; developed economy, developing economy, global economy, regional economy, national economy and even more specific, industry levels (Mathias, Sean Lux, Chad & Russell, 2015; Axel & Schneider, 2006; Williams, 2010; Terence, 2012; Siqueira, Webb & Bruton, 2016; Tetsushi, John & Keijiro, 2011), with data collection and analysis done at macro (Axel & Schneider, 2006; Gabriel, 2018; Simeon & Rita, 2009; Davidson, Martin & Lawrence, 2003), Meso (Williams, 2010; Alicja & James, 2018; Djajić & Mesnard, 2015) and even Micro (Williams & Martinez-Perez, 2014; Williams & Nadin, 2012; Sandra & Patrick, 2008) levels.

Fig. XXX Context of research and levels of analysis by authors

Decision to operate in the informal economy as influenced by transaction cost manifests in various ways and are expressed through various institutional factors. These factors rest on three major pillars: tax and taxation system (Marè, Motroni & Porcelli, 2020; Benno, Schneider & Christoph, 2008; Williams & Nadin, 2012), governance (Benno, Schneider & Christoph, 2008; Williams, 2010; Désirée & Schneider, 2012), and effectiveness of public institution

(Nguimkeu, 2014; Gabriel, 2018; Prado, 2007; Djajić & Mesnard, 2015; Siqueira, Webb & Bruton, 2016;). Important for this review is the understanding that the diversity in context and levels of analysis in these various studies have led to fragmented studies with no systematic knowledge base to guide researchers with interest in studying in this area.

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