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ENTREPRENEURSHIP AND THE INFORMAL ECONOMY: AN OVERVIEW

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In recent decades, the field of entrepreneurship studies has become increasingly interested in the relationship between entrepreneurship and the informal economy. This paper reviews this burgeoning sub-field of entrepreneurship studies that recognizes how entrepreneurs do not always conduct their business affairs wholly by the rulebook. Evaluating this rapidly growing body of literature, it reviews the findings regarding the preponderance of entrepreneurs to engage in the informal economy, the nature of such informal entrepreneurship, the characteristics of informal entrepreneurs and the motives underpinning participation in such endeavor, along with the competing theories that have sought to explain engagement in this type of entrepreneurship. The tentative finding is that there are marked socio-spatial variations in the prevalence and nature of informal entrepreneurship, the characteristics of informal entrepreneurs and their rationales. The implication is not only that different theorizations of informal entrepreneurship apply more in some populations than others, but also that some populations usually seen as lacking in entrepreneurial spirit are perhaps more enterprising and entrepreneurial than currently recognized. Consequently, legitimizing this hidden enterprise culture could be an important means of promoting enterprise and economic development in such populations. The paper concludes by highlighting future avenues for research on this subject.

Keywords: Informal sector; underground economy; tax evasion; enterprise culture; entrepreneurs; hidden economy; undeclared work.

1. Introduction

The popular belief that many entrepreneurs are shady characters who have a tendency to flout the rulebook is captured in the old English adage that if you scratch an entrepreneur, you will find a “spiv” (Burns, 2001). Yet, despite this portrayal of entrepreneurs in popular culture, the entrepreneurship literature has only recently started to evaluate the relationship between entrepreneurship and the informal economy. The aim of this paper is to provide an overview of this literature to begin to understand the prevalence and character of informal entrepreneurship in the contemporary world.

To review the literature on entrepreneurship and the informal sector, Sec. 2 will review how informal entrepreneurship can be defined and how this representation of entrepreneurs operating in the informal economy has begun to challenge the ideal-type depiction of
entrepreneurs as clean, wholesome and legitimate heroes. Section 3 will then review the varying prevalence of off-the-books practices among entrepreneurs followed in Sec. 4, by the contrasting types of informal entrepreneurship, while Sec. 5 evaluates the characteristics of informal entrepreneurs and Sec. 6, the different motives underpinning the decision to participate in such entrepreneurship. Section 7 then pulls these strands together by reviewing the competing theorizations that have sought to explain informal entrepreneurship. The paper then concludes by briefly reviewing the current state of knowledge on entrepreneurship and the informal sector and highlighting future avenues for research on this subject.

2. Defining Entrepreneurship and Informal Entrepreneurs

How to define entrepreneurship has long proven a problematical issue (Brockhaus and Horowitz, 1986; Cole, 1969; Hull et al., 1980; Shaver and Scott, 1991). Yet, the fact that no consensus has been achieved is itself revealing. Jones and Spicer (2005) argue that the inability to reach a common definition signifies how the concept of entrepreneurship is not so much seeking to describe a lived practice, but rather, to portray an ideal against which we can then measure ourselves. This depicting of entrepreneurship as an ideal-type or object of desire, rather than as a descriptive subject, is important. It explains how despite the lack of consensus on how to define entrepreneurship, a strong and broad agreement has emerged that portrays it in a positive and virtuous manner as a wholesome endeavor, exemplified in the portrayal of entrepreneurs as “economic heroes” (Cannon, 1991), even “super heroes” (Burns, 2001). As Burns (2001) proclaims, they are “the stuff of ‘legends’ … held in high esteem and held up as role models to be emulated.”

Indeed, this virtuous depiction is apparent across all theoretical approaches to entrepreneurship (see Cunningham and Lischeron, 1991). It is present in the “great person” school that views them as born (rather than made) and reads them as possessing a “sixth sense” along with intuition, vigor, energy, persistence and self-esteem and contrasts them with “mortals” who “lack what it takes.” It is also present in the more socially constructed approaches of the classical, management, leadership or intrapreneurship schools of thought, which all portray the entrepreneur as a positive figure possessing virtuous attributes that “lesser mortals” do not. As Jones and Spicer (2005) assert, this wholesome representation thus creates an unattainable desired object and it is the gap between us as subjects and this ideal object that feeds the desire to become an enterprising subject.

The outcome is that types of entrepreneurship that do not entirely conform to the virtuous ideal-type have been either put outside the boundaries of entrepreneurship, portrayed as temporary or transient, ignored, or simply consigned to the peripheries by depicting them not as “mainstream” entrepreneurship. Indeed, it is perhaps precisely because of the predominance of this virtuous representation that so little attention has been paid to the relationship between entrepreneurship and the informal economy.

How, therefore, can one define an informal entrepreneur? In this paper, the working definition adopted is that an entrepreneur is somebody actively involved in starting a
business or is the owner/manager of a business that is less than 42 months old (Harding et al., 2006; Reynolds et al., 2002). This definition, although excluding aspects sometimes included (e.g., intrapreneurship), is fit for the purpose for which it is intended here, namely studying whether those starting-up business ventures participate in the informal economy. Meanwhile, and reflecting the strong consensus in the literature, the informal economy, or what has been variously called the “off-the-books,” “undeclared,” “shadow,” “cash-in-hand” or “hidden” economy/sector, is here defined as the paid production and sale of goods and services that are legitimate in all respects besides the fact that they are unregistered by, or hidden from the state for tax and/or benefit purposes (European Commission, 1998; Evans et al., 2006; Katungi et al., 2006; Marcelli et al., 1999; OECD, 2000a,b, 2002; Renooy et al., 2004; Portes, 1994; Thomas, 1992; Venkatesh, 2006; Volkov, 2002; Webb et al., 2009; Williams and Windebank, 1998).

Informal entrepreneurship, in sum, is here defined as involving somebody actively engaged in starting a business or is the owner/manager of a business that is less than 42 months old who participates in the paid production and sale of goods and services that are legitimate in all respects besides the fact that they are unregistered by, or hidden from the state for tax and/or benefit purposes (Williams, 2006a, 2007a). For these entrepreneurs, therefore, the only illicit aspect of their activity is that some or all of the monetary transactions they undertake are not declared to the authorities when they should be declared. Informal entrepreneurs trading illicit goods and services (e.g., drug trafficking, gun-running), therefore, are not part of the informal economy. They are part of the broader criminal economy.

3. Prevalence of Informal Entrepreneurship

Recently, the small tributary of thought that highlights the negative tendencies of entrepreneurs and how they do not always play by the rulebook (Collins et al., 1964; Bhide and Stevenson, 1990; Kets de Vries, 1977) has rapidly expanded. Numerous studies have begun to draw attention to how entrepreneurs participate in a wide variety of illegitimate activities (Armstrong, 2005; Bouchard and Dion, 2009; Fadahunsi and Rosa, 2002; Fournier, 1998; Friman, 2001; Frith and McElwee, 2008a,b, 2009; Jones and Spicer, 2009; Rehn and Taalas, 2004; Sköld and Rehn, 2007; Smith, 2007; Smith and Christou, 2009; Storr and Butkevich, 2007) and also how many participate in illegitimate activities, such as drug-dealers (Bouchard and Dion, 2009; Frith and McElwee, 2008, 2009; Friman, 2001), prostitutes and pimps (Smith and Christou, 2009), often display entrepreneurial traits and attributes. One tributary of this burgeoning literature on illegitimate entrepreneurship has been that which examines entrepreneurship in the informal economy.

The informal economy, by all accounts, is a sizeable realm and is far from being some marginal enclave consigned to a few occupations and/or sectors. The ILO (2002b) find that some 48 percent of non-agricultural employment in North Africa is in the informal economy, 51 percent in Latin America, 65 percent in Asia and 72 percent in sub-Saharan Africa. Indeed, a recent OECD report suggests that out of a global working population of
some 3 billion, around two-thirds (1.8 billion) work in the informal sector (Jütting and Laiglesia, 2009). This finding is reinforced by many other smaller-scale studies in both advanced economies, post-socialist societies and the third world that use either indirect proxy indicators of its extensiveness (Bajada and Schneider, 2005; Schneider and Enste, 2000) or direct survey methods (Chowdury, 2006; Fernandez-Kelly and Shefner, 2006; Guha-Khasnobis and Kanbur, 2006; Guha-Khasnobis et al., 2006; Renooy et al., 2004; Williams, 2004, 2005, 2006a, 2007a, 2009c’d; Williams and Nadin, 2010; Williams and Round, 2007, 2008, 2010).

Moreover, most of this informal employment is now recognized to be conducted on an own-account basis. In sub-Saharan Africa, for example, some 70 percent of informal workers are self-employed, 62 percent in North Africa, 60 percent in Latin America and 59 percent in Asia (ILO, 2002b). The outcome is that the informal economy today is read less as exploitative waged labor conducted under “sweatshop-like” conditions and more as a “hidden enterprise culture” (Williams, 2006a, 2007d, 2010; Williams and Windebank, 2006). As the ILO (2002a), for example, states, the informal economy represents “an incubator for business potential and … transitional base for accessibility and graduation to the formal economy” and the informal self-employed display “real business acumen, creativity, dynamism and innovation.” This re-reading of the informal economy as a hidden enterprise culture first emerged in a third (majority) world context (Bennett and Estrin, 2007; Browne, 2004; Cross, 2000; Cross and Morales, 2007; De Soto, 1989, 2001; ILO, 2002a; Ilahiane and Sherry, 2008). However, since the turn of the millennium, this re-representation of the informal economy has also spread to both post-Soviet economies (Chavdarova, 2005; Rehn and Taalas, 2004; Roberts and Tholen, 1999; Round et al., 2008; Williams, 2008a, 2009a; Williams and Round, 2007) as well as the western world (Edgcomb and Thetford, 2004; Evans et al., 2006; Katungi et al., 2006; Lazaridis and Koumandraki, 2003; Renooy et al., 2004; Small Business Council, 2004; Snyder, 2004; Williams, 2006a,b, 2007c, 2008a, 2009a,b).

Until now, however, few have sought to evaluate the extent to which entrepreneurs engage in the informal economy. One of the only studies to do so employs the same direct survey method in three countries, namely Russia, Ukraine and England. It finds that 100 percent, 90 percent and 77 percent of the entrepreneurs surveyed conduct some or all of their transactions in the informal economy (Williams, 2008a). This finding, nevertheless, is based on a survey of just 91 entrepreneurs in England, 331 in Ukraine and 81 in the Russian city of Moscow.

There are also significant spatial variations in the propensity to trade informally among entrepreneurs. As Williams and Nadin (2010) identify in English localities, in affluent urban areas, 58 percent of early-stage entrepreneurs engage in informal transactions compared with 84 percent in deprived communities. Similarly, 55 percent of established self-employed in affluent areas trade off-the-books compared with 80 percent in deprived communities.

Nevertheless, the current evidence on the propensity of entrepreneurs to trade off-the-books is based on very small sample sizes. Therefore, future further research will be
required in various contexts on whether entrepreneurs flout the law and conduct either a portion or all of their transactions in the informal economy.

4. Types of Informal Entrepreneurship

Entrepreneurs can operate wholly in the informal economy or conduct only a portion of their transactions off-the-books. Williams (2009d) finds that although in England, only one in five entrepreneurs surveyed operate wholly in the informal economy, in Ukraine, over half (51 percent) did so and 96 percent in the Russian city of Moscow, intimating that the vast bulk of entrepreneurs are not even on the radar screen of the state.

Comparing affluent and deprived English neighborhoods, meanwhile, Williams and Nadin (2010) find that nearly one-third (31 percent) of business start-ups in deprived urban neighborhoods are not even on the radar screen of the state because they are not registered businesses and are wholly off-the-books ventures, while in affluent areas, only 6 percent are of this kind. The resultant intimation is that deprived populations are more enterprising and entrepreneurial than currently recognized and that legitimizing informal entrepreneurship could be an important means of promoting enterprise and economic development in such populations.

Entrepreneurial business ventures trading off-the-books might be a spin-off from the informal entrepreneurs’ formal employment, or alternatively, can derive from some hobby or interest, or what Stebbins (2004) calls “serious leisure,” by which he means the systematic pursuit of an amateur, hobby or volunteer activity that participants find so substantial and interesting that they launch themselves on a career centered on acquiring and expressing its special skills. In English localities, for every informal enterprise that emerges out of some hobby or personal interest, more than two spin-off from people’s formal employment (Williams, 2007d). This ratio, however, varies spatially. In affluent communities, a greater share of early-stage informal enterprises spin-off from formal employment, while in deprived areas, a relatively higher share emerges out of hobbies or personal interests (Williams and Nadin, 2010). Similar findings are repeated in Russia and Ukraine (Williams, 2009d).

As these informal entrepreneurial ventures become established, two distinct groups can also be identified, namely serial users of informal trading practices and those whose enterprises are in transition toward legitimacy. Legitimization, of course, is not a one-off event, but rather, a journey or transition, similar to entrepreneurship itself (Anderson, 2005). Of the 60 more established off-the-books ventures studied in English localities more than 42 months old, 23 were gradually legitimizing their businesses (Williams, 2007d). The remaining 37 enterprises were not in transition toward legitimacy, some of which were owned by “portfolio entrepreneurs” (Carter and Ram, 2004), simultaneously running several businesses, none of which were in transition to legitimacy. Moreover, in deprived populations, greater proportions were in transition to legitimacy than in deprived communities (Williams, 2010). Again, similar findings are identified in Ukraine and Russia, with 66 percent in Ukraine and 50 percent in Moscow expressing a desire to eventually formalize their operations (Williams, 2009d). On the one hand, this was so they would be able to access loans to expand their business. On the other hand, and more
commonly, it was because of the greater esteem that would result from being seen as a legitimate “entrepreneur”/business owner.

Beyond these studies, there have been few other examinations of the different types of informal entrepreneurship. Future research could therefore usefully evaluate the extent to which the above findings are replicated elsewhere.

5. Characteristics of Informal Entrepreneurs

Turning to the characteristics of informal entrepreneurs, the widespread assumption has been that such entrepreneurs are clustered in lower-income populations (van Beukering, 1994; Galemba, 2008; Holley, 1993; Mwega, 1991; Rogerson, 2001; Zuin, 2004; Williams, 2008a). Superficially, the assertion that they are from lower-income groups in the population appears to be reinforced by survey findings. Williams (2009d) finds that in the lowest quartile of households surveyed in terms of gross household income, one finds clustered 34 percent of the informal entrepreneurs in England, 35 percent in Ukraine and 30 percent in Russia. However, this does not mean informal entrepreneurs are more likely to be from lower- than higher-income populations. Instead, informal entrepreneurs are found to be polarized at the two ends of the income spectrum, concentrated in both the poorest and most affluent households in terms of gross household income. Not only are they clustered in the lowest-income quartile, but also in the highest-income quartile of households, where one finds 40 percent of all informal entrepreneurs in England, 41 percent in Ukraine and 56 percent in Russia. However, there are differences in the kinds of informal entrepreneurship in which they engage. In all three countries surveyed, the entrepreneurs that run registered enterprises but conduct a portion of their trade informally are concentrated in the highest-income quartile of households while entrepreneurs working on a wholly informal basis are more heavily concentrated in the lowest-income households (Williams, 2009d).

Another common assumption is that it is marginalized populations, such as those excluded from the formal labor market, who engage in informal entrepreneurship (Evans et al., 2006; Katungi et al., 2006; Llanes and Barbour, 2007; Small Business Council, 2004; Williams, 2006a). Although those informal entrepreneurs in the lowest-income quartile of the population are more likely to have no formal occupation and engage in lower-paid forms of off-the-books entrepreneurial endeavors, this does not mean that most informal entrepreneurs are unemployed. In a survey of English localities, the finding is that 4 percent were unemployed or economically inactive when they established their business venture, 70 percent were in formal employment and 16 percent registered as self-employed (Williams, 2008b). This is very similar to participation in entrepreneurship more generally. The SBS (2006), for example, identify that 5 percent are unemployed, 80 percent employees are in employment and 13 percent are self-employed.

This further reinforces the finding of McCormick (1998) that those starting-up enterprises are in formal work and straddle the formal and informal economies as a “risk-reduction strategy,” and only later in the development of the enterprise do they become fully self-employed and leave formal waged employment (e.g., Reynolds et al., 2002). Indeed, this has also been previously identified in Russia. As Guariglia and Kim (2006)
identify, some 26.5 percent of the new self-employed are the formally employed engaged in informal entrepreneurial endeavors as a second job at the outset. There is also emerging evidence that as the business develops, they make the transition from waged employment to full-time self-employment (e.g., Williams, 2008b), reflecting the same trend as among formal entrepreneurs (Reynolds et al., 2002).

However, the employment status and income profile of informal entrepreneurs varies geographically. Williams and Nadin (2010) find that in affluent communities, they are more likely to be employed and clustered in the lowest-income quartile of the community, while in deprived areas, they are less likely to be employed and clustered in both the lowest- and highest-income quartiles, the former usually engaging in less skilled survival self-employment (e.g., house-cleaning) and the latter in higher-paid craft-based self-employment (e.g., plumbers, plasterers, general builders).

Again, however, the evidence-base on the characteristics of informal entrepreneurs remains rather limited at present. Therefore, future research is required in different contexts on the characteristics of those engaged in informal entrepreneurship.

6. Motives of Informal Entrepreneurs

Developing on the work of Bögenhold (1987) who divides entrepreneurs into those motivated by economic needs and those seeking self-realization, it has become increasingly common to differentiate between “necessity” entrepreneurs pushed into entrepreneurship because other choices are absent or unsatisfactory and “opportunity” entrepreneurs who do so out of choice, such as their wish for independence or to own a business (Aidis et al., 2006; Harding et al., 2006; Maritz, 2004; Minniti et al., 2006; Perunović, 2005; Reynolds et al., 2001, 2002; Smallbone and Welter, 2004). This structure/agency dualism regarding entrepreneurs’ motives recently has become ever more central in the entrepreneurship literature, not least because of its adoption in the Global Entrepreneurship Monitor, a principal global data source on entrepreneurship (Minniti et al., 2006).

Interestingly, this dualism has also become increasingly central when explaining informal entrepreneurs’ motives, albeit often implicitly. That is, informal entrepreneurs have been commonly depicted as driven out of necessity into such endeavor as a last resort (Castells and Portes, 1989; Gallin, 2001; Sassen, 1997) and informal entrepreneurship represented as “involuntary,” “forced,” “reluctant” or “survivalist” (Boyle, 1994; Hughes, 2006; Singh and De Noble, 2003; Travers, 2002). However, this assertion has been a priori assumption rather than an empirical finding.

However, others have begun to argue the inverse (Cross, 1997, 2000; Gerxhani, 2004; Maloney, 2004; Snyder, 2004). As Gerxhani (2004) asserts, many “choose to participate in the informal economy because they find more autonomy, flexibility and freedom in this sector than in the formal one.” Similarly, Snyder (2004), in her study of 50 informal entrepreneurs in New York City’s East Village, finds that all the informal entrepreneurs she studied did so out of choice, such as to set their careers on a new path, to transform their work identity or to reveal their true selves. This is also the finding of Cross (1997, 2000), studying street vendors in Latin America.
The above studies portray informal entrepreneurs as either universally necessity- or opportunity-driven. Others, however, have adopted a more nuanced approach and evaluated the ratio of necessity-to-opportunity entrepreneurs, akin to the literature on formal entrepreneurs (e.g., Harding, 2003; Harding et al., 2006; Maritz, 2004; Minniti et al., 2006; Perunović, 2005). One of the first to do so was a study of 50 dealers at flea markets in Northern California (Lozano, 1989). She reveals that 80 percent were involuntary entrants and the remaining 20 percent were voluntary entrants. This search for the ratio of necessity-to-opportunity informal entrepreneurs has subsequently been evaluated both in rural and urban North America (Edgcomb and Thetford, 2004; Valenzuela, 2001) and the UK (Williams, 2010). In English localities, Williams (2010) identifies that the ratio of 3.3:1 opportunity-to-necessity informal entrepreneurs is approximately the same as the opportunity-to-necessity ratio of 3.6:1 for all UK early-stage entrepreneurs identified in the 2001 GEM survey (Harding et al., 2006). However, in deprived areas, the ratio is 1.5:1 while in affluent areas, it is 4.9:1, signifying how informal entrepreneurship is more necessity-driven in deprived areas, but opportunity-driven in affluent areas.

Nevertheless, these studies still portray entrepreneurs as either necessity- or opportunity-driven; they depict necessity and opportunity as separate categories constituted via their negation to each other (i.e., an entrepreneur doing so out of choice means they are not engaging out of necessity). Mirroring pioneering studies on formal entrepreneurs’ motives (Aidis et al., 2006; Smallbone and Welter, 2004), this separateness of opportunity- and necessity-drivers has begun to be questioned. It has been argued that both can be co-present and also that motives shift over time, often from more necessity- to opportunity-driven (Snyder, 2004; Williams, 2007a, 2008a, 2009b, e, f; Williams et al., 2009).

This has important implications. Conventionally, the literature on economic and enterprise development has paid little attention to necessity-oriented entrepreneurs in the belief that opportunity-oriented entrepreneurs provide the potentially best source of future dynamism and growth. However, the clear intimation here is that many necessity-driven entrepreneurs become more opportunity-driven. Therefore, it would be mistaken for economic and enterprise development practitioners to write-off necessity entrepreneurs operating informally as unworthy of support.

7. Theorizing Informal Entrepreneurship

Recently, various competing theorizations have been adopted to explain informal entrepreneurship (Antonopoulos and Mitra, 2009; Arrowsmith et al., 2003; Gilman et al., 2008; Gurtoo, 2009; Pissani and Patrick, 2002; Ram et al., 2007; Rehn and Taalas, 2004; Small Business Council, 2004; Valenzuela, 2001; Williams, 2006a, 2007a,b, 2008a,b, 2009c, 2010). Below, we provide an overview of these competing explanations.

7.1. Modernization perspective

For much of the 20th century, the widespread belief was that the formal economy was extensive and growing while the informal economy was a minor remnant and
disappearing. Informal entrepreneurs were thus seen as a leftover from an earlier mode of production and not part of the modern economy. Therefore, its existence signaled “under-development,” “backwardness” and “traditionalism,” while formal entrepreneurship signaled “advancement,” “development” and “progress” (Geertz, 1963; Gilbert, 1998; Lewis, 1959; Packard, 2007).

However, since the turn of the millennium, there has been widespread recognition that the informal economy in general (Charmes, 2009; ILO, 2002; Jütting and Laiglesia, 2009; Schneider, 2008), and informal entrepreneurship particularly (De Soto, 2001; Dickerson, 2010; Minard, 2009; Perry and Maloney, 2007; Williams, 2006a), is extensive, enduring and expanding in many global regions. The result has been a refutation of this theorization of informal entrepreneurship as some minor remnant, which is disappearing and the emergence of new theorizations to explain its persistence and growth.

7.2. **Structuralist perspective**

A first theorization recognizing that informal entrepreneurship is extensive and expanding is the structuralist perspective, which represents such an endeavor as an inherent part of a new emergent mode of production. In the emerging deregulated open world economy, the growth of subcontracting is asserted to result in the expansion of dependent or false self-employment, a form of work that is largely unregulated, low paid, precarious and insecure work conducted under “sweatshop-like” conditions by marginalized populations excluded from the formal economy (Amin et al., 2002; Castells and Portes, 1989; Davis, 2006; Gallin, 2001; Portes, 1994; Rajiman, 2001).

From this perspective, informal entrepreneurs are therefore unwilling and unfortunate pawns in an exploitative global economic system, cast out into the informal economy because of their inability to find formal work (e.g., Castells and Portes, 1989; Gallin, 2001; ILO, 2002; Valenzuela, 2001). Therefore, informal entrepreneurship is a survival practice conducted out of necessity and a substitute for formal work pursued as a last resort in its absence.

7.3. **Neo-liberal perspective**

Rather than to portray informal entrepreneurship as a survival practice conducted out of necessity by marginalized populations, a neo-liberal perspective has instead contended that the growth of informal entrepreneurship signals how many are choosing to voluntarily exit the formal economy. Here, informal entrepreneurs are heroes rejecting the bureaucratic shackles of an over-regulated state (e.g., De Soto, 1989) and informal entrepreneurship is a direct response to the over-regulation of the market (De Soto, 1989). They are said to choose to work informally to avoid the costs, time and effort of formal registration (Biles, 2009; De Soto, 1989, 2001; Perry and Maloney, 2007; Small Business Council, 2004) and such informal entrepreneurship is a sign of the popular resistance to over-regulation. It is a rational economic tactic voluntarily pursued by entrepreneurs stifled by state-imposed constraints (Maloney, 2004; Packard, 2007).
7.4. Post-structuralist perspective

Those explaining the endurance and expansion of informal entrepreneurship were for some years limited to a choice between either structuralist or neo-liberal theorizations, or structure versus agency. Recently, a third perspective has emerged. A loose assemblage of critical, post-colonial, post-structuralist, post-development and post-capitalist scholars has contested the representation of informal entrepreneurs as economic actors and instead represented them as primarily social actors.

From this post-structuralist perspective, informal entrepreneurship is variously re-read as: conducted for closer social relations such as kin, neighbors, friends and acquaintances (Williams, 2004); pursued for social and redistributive reasons rather than purely financial gain (Persson and Malmer, 2006; Round and Williams, 2008; Williams, 2004); a resistance practice that is a response to the exploitation of workers in the neo-liberal global economic system and the corruption and bribes that can be part and parcel of the formal economy (Biles, 2009; Kudva, 2009; Whitson, 2007), or an alternative space in which participants can transform their work identity and/or reveal their true selves such as by establishing informal lifestyle businesses (Snyder, 2004). Rather than portray informal entrepreneurs as unfortunate pawns in an exploitative global economic system, or as voluntarily exiting the formal realm because of over-regulation, post-structuralists thus again ascribe agency to informal entrepreneurship, but emphasize how it is a livelihood practice chosen for social, redistributive, resistance or identity reasons (Biles, 2009; Snyder, 2004; Whitson, 2007).

Until now, these four theoretical perspectives have been usually portrayed as mutually exclusive rival explanations with informal entrepreneurs depicted as possessing one single “logic” (Amin et al., 2002; De Soto, 2001). In recent years, however, some have sought to integrate these perspectives by asserting that structuralist explanations might apply to entrepreneurs in relatively deprived populations and agency-oriented explanations to relatively affluent groups (Evans et al., 2006; Gurtoo and Williams, 2009; Williams and Nadin, 2010). Nevertheless, there have been few evaluations of the contrasting validity of these rival theories in different contexts. This is a major gap in the knowledge that will need to be filled in future research.

8. Conclusions

The starting point of this paper was the recognition that much of the entrepreneurship literature has tended to adopt a virtuous ideal-type depiction of entrepreneurs as wholesome and legitimate heroes. Recently, however, an evidence-base has emerged that displays the marked discrepancy between this textbook celebratory ode to the entrepreneur and the lived practices of entrepreneurship. One major strand of this literature is that which investigates entrepreneurship in the informal economy.

Reviewing the extant literature on informal entrepreneurship, this paper has revealed how most entrepreneurs engage in transactions in the informal economy. In consequence, although much of the literature on entrepreneurship might adopt a gleaming “whiter-than-white” depiction of entrepreneurs, this literature on informal entrepreneurship reveals that
formal entrepreneurs perhaps represent just the tip of the iceberg and beneath the surface, so far largely ignored, is a large hidden enterprise culture of entrepreneurs who do not always adhere to the rules. Of course, not all entrepreneurs are found to always engage in informal transactions. Denoting entrepreneurs as always flouting the law is as mistaken as assuming that all are continuously virtuous. Nevertheless, in lived practice, entrepreneurship is for many not as legitimate as conventionally portrayed.

However, marked socio-spatial variations exist both in the tendency of entrepreneurs to work off-the-books as well as the types of informal entrepreneurship conducted, the characteristics of informal entrepreneurs and their motives for engaging in such endeavor. The consequence is that no one theoretical perspective toward informal entrepreneurship appears to be universally applicable. Instead, different perspectives seem to be more relevant in some populations than others. Moreover, given that some populations are more likely to engage in wholly off-the-books enterprise, some populations that are conventionally seen as relatively lacking entrepreneurial spirit are actually more enterprising and entrepreneurial than is currently recognized. Consequently, legitimizing this hidden enterprise culture could be an important means of promoting enterprise and economic development in such populations. So far, however, these findings remain tentative because they derive from only a small number of surveys and relatively small samples.

Therefore, some nationally representative surveys in a wider array of countries and global regions are now required. This paper has certainly provided a strong rationale for such empirical surveys by revealing that many entrepreneurs appear to operate informally and that this is a potentially important facet of enterprise culture that has been subject to little empirical investigation. It is time that further research was conducted to evaluate in different nations and global regions the proportion of business start-ups that are wholly legitimate ventures, the share that are registered enterprises conducting a portion of their trade in the informal economy and the percentage that are wholly unregistered enterprises conducting all of their trade informally. Moreover, there is also a need to start unpacking the varying characteristics of those engaged in such endeavors in different contexts and also how the motives of those engaged in informal entrepreneurship in varying contexts, and in a way that transcends the conventional depiction of such entrepreneurs as either necessity- or opportunity-driven. If pursued, then some progress will be made in evaluating the relevance of the contrasting theorizations of informal entrepreneurship in different contexts. Finally, it might also be useful to understand the variable extent of commercial and social entrepreneurship in the informal sector. Until now, the assumption has perhaps been that most informal entrepreneurship is commercial in orientation. This needs to be evaluated critically in various contexts.

If this paper stimulates such further research that engages more with the lived practices of entrepreneurship, then it will have achieved its objective. What is certain from this overview of the literature on informal entrepreneurship, however, is that this important facet of entrepreneurship and enterprise culture can no longer be brushed aside as some minor issue of relatively little importance. Hopefully, this overview will stimulate much more research than has so far been the case to reveal not only whether the above findings are more widely relevant, but also what needs to be done about such endeavors.
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