
Article:
Williams, C.C. orcid.org/0000-0002-3610-1933 and Kosta, B. (2020) Evaluating the implications of starting-up unregistered on future firm performance : evidence a 2019 survey in Albania. Journal of Developmental Entrepreneurship, 25 (2). 2050010. ISSN 1084-9467

https://doi.org/10.1142/s1084946720500107

Journal of Developmental Entrepreneurship

World Scientific
www.worldscientific.com

EVALUATING THE IMPLICATIONS OF STARTING-UP UNREGISTERED ON FUTURE FIRM PERFORMANCE: EVIDENCE FROM A 2019 SURVEY IN ALBANIA

COLIN C. WILLIAMS

Sheffield University Management School (SUMS), University of Sheffield
Conduit Road, Sheffield S10 1FL, United Kingdom
C.C.Williams@sheffield.ac.uk

BRUNILDA KOSTA

Management Department, Faculty of Economics, University of Tirana
Arben Broci Road, 1000 Tirana, Albania
Brunildakosta@feut.edu.al
secondauthor_id@domain_name

Received Day Month Day
Revised Day Month Day

This paper evaluates critically the relationship between starting-up unregistered and firm performance. The widespread belief across all the dominant theories of informal entrepreneurship is that unregistered start-ups experience poorer future firm performance than those registered from the outset of their operations. To evaluate this poorer performance thesis, this paper reports World Bank Enterprise Survey (WBES) data on 377 enterprises in Albania collected in 2019. After controlling for other determinants of firm performance, the finding is that formal enterprises that started-up unregistered have significantly higher annual sales growth than enterprises that registered from the outset. To explain this, the argument is that in weak institutional environments, such as Albania, the advantages of operating unregistered at the outset outweigh the benefits of registration. The result is a call to re-theorize firm performance in the informal sector and for policy to shift towards a more facilitating approach that enhances benefits of registration.

Keywords: entrepreneurship; informal sector; firm performance; Albania

1. Introduction

Over the past decade, there has emerged a burgeoning literature on informal sector enterprise (e.g., Chepurenko, 2018; Coletto and Bisschop, 2017; Karki and Xheneti, 2018; Lin, 2018; Mannila and Eremicheva, 2018; Ogando et al, 2017; Petersen and Charman, 2018; Ram et al., 2017). In line with much of the literature, informal sector enterprises are defined here as enterprises that do not register with the relevant authorities (see Williams

et al., 2017). However, sometimes a wider definition is used that includes enterprises not declaring some or all of their production and/or sales to the authorities for tax, benefit and/or labor law purposes when they should do so (Ketchen et al., 2014; Williams and Shahid, 2015). Until now, the majority of literature has portrayed such informal enterprise and entrepreneurship negatively as poorly performing unproductive endeavor that is deleterious to economic development and growth (Siqueira et al. 2014; Williams and Gashi, 2020; Williams and Liu, 2019; Williams and Shahid 2015; Williams et al. 2013, 2015). The aim of this paper is to begin questioning this negative representation of informal entrepreneurship by evaluating critically the poorer performance thesis that asserts enterprises starting-up unregistered have poorer future firm performance than enterprises registering from the outset of operations (Baumol, 2014; La Porta and Schleifer, 2008, 2014). To do this, the intention is to evaluate the firm performance, measured in terms of sales growth, of formal enterprises that started-up unregistered and on a registered basis from the outset in Albania. Revealing that those starting-up unregistered are subsequently higher performing than those that started-up registered, the intention is to contribute to a small but burgeoning literature which is opening up informal entrepreneurship to re-representation as a more positive phenomenon than so far considered.

This paper therefore advances understanding of informal sector entrepreneurship in three ways. First, and theoretically, finding a significant positive association between being unregistered at start-up and firm performance opens up the need for a re-representation of informal entrepreneurship as a more positive phenomenon than so far considered. It also tentatively displays that in weak institutional environments where there are low risks of detection and punishment and few incentives to formalize, the benefits of non-registration outweigh the advantages of registration. Second, and empirically, it reports fresh new evidence from a 2019 World Bank Enterprise Survey (WBES) in Albania on the relationship between informal entrepreneurship and firm performance. Its importance is that it refutes the widespread *a priori* assumption that starting-up unregistered has a negative impact on firm performance by showing how sales growth rates are significantly higher in formal enterprises that started-up unregistered than those registered from the outset in Albania. Finally, and from a policy perspective, this paper shows the need to shift away from the conventional eradication approach based on the negative depiction of informal entrepreneurship as poorly performing endeavor. Instead, it displays the need for a more positive facilitating approach that seeks to improve the benefits of registration.

To do this, section 2 briefly outlines the growing literature on informal entrepreneurship and the emergent questioning of a wholly negative portrayal of such entrepreneurship, including the poorer performance thesis that views non-registration as negatively affecting firm performance. It also reviews some rationales for conversely viewing non-registration as beneficial to subsequent firm performance. Section 3 then presents the data, variables and methodology used here to evaluate the relationship between firm performance and starting-up unregistered, reporting the World Bank Enterprise Survey (WBES) harmonized data on 377 enterprises in Albania collected in 2019 and the modelling framework here used. Section 4 reports the results, displaying that formal

enterprises that started-up unregistered have significantly higher subsequent annual sales growth than those registered from the outset. The fifth and final section discusses the theoretical and policy implications along with the limitations of this study and future research required.

2. Representations of informal entrepreneurship

2.1. *Beyond negative representations*

For most of the last century, entrepreneurship scholars largely viewed informal entrepreneurship as unworthy of attention. A modernization theory prevailed which perceived the informal sector as a remnant of an earlier mode of production which would naturally and inevitable disappear with advancement and modernization. Therefore, its persistence was a sign of "underdevelopment" and "backwardness" (Lewis, 1959; Geertz, 1963; Gilbert, 1998). In more recent decades, the recognition that the informal sector in general, and informal entrepreneurship more particularly, are extensive and persistent has drawn the attention of more entrepreneurship scholars to this subject (Schneider and Williams, 2013; ILO, 2013; Williams, 2015a,b). Indeed, Autio and Fu (2015) reveal that two-thirds of businesses in both developing and developed countries are unregistered at start-up (Autio and Fu 2015). This has led to new theorizations of such entrepreneurship.

Firstly, some scholars have updated conventional modernization theory (La Porta and Shleifer 2008 2014). This recognizes the extensiveness of informality but nonetheless persists with a negative representation of informal entrepreneurs as typically uneducated people operating small unproductive enterprises in separate "bottom of the pyramid" markets producing low-quality products for low-income consumers using little capital and adding little value (La Porta and Shleifer 2014). A second loose grouping of scholars adopting a political economy perspective explain the growth of informal entrepreneurship to be a direct by-product of a deregulated open world economy where outsourcing and subcontracting have become ways of integrating informal enterprises into contemporary capitalism so as to reduce production costs (Castells and Portes, 1989; Davis, 2006; Meagher, 2010; Slavnic, 2010; Taiwo, 2013). Again, however, it remains seen as a negative phenomenon that is highly exploitative activity conducted as a survival tactic by marginalized populations.

In both the modernization and political economy theories, formal enterprises are viewed as suffering from unfair competition from unproductive informal enterprises and economies as losing competitiveness as a result (Leal Ordóñez, 2014; Lewis, 2004). Meanwhile, governments lose regulatory control over work conditions (ILO, 2014) and tax revenue (Bajada and Schneider 2005), and customers lack legal recourse (Williams and Martinez ,2014b). Informal entrepreneurs are viewed as "necessity-driven" (Castells and Portes 1989) and lacking access to credit, capital and financial services (ILO, 2014). When combined with their need to keep small to avoid the authorities (Williams *et al.* 2012), a lack of advice and support (Barbour and Llanes, 2013) and their inability to secure property

rights (De Beer *et al.,* 2013), they are seen as locked in a "poverty trap" (McKenzie and Woodruff, 2006).

Nevertheless, in recent years, positive representations have started to emerge. These include a view that informal entrepreneurs create jobs (Ketchen *et al.,* 2014) and the informal sector as a breeding ground for micro-enterprises (Barbour and Llanes, 2013) and source of cheap labor and raw materials for the formal sector (Ketchen *et al*., 2014). They also include a view that the informal sector is a test-bed for business ventures (Williams and Martinez-Perez, 2014a), an escape route for entrepreneurs from corrupt public officials and the regulatory burden where this stifles business development (Tonoyan *et al.,* 2010), and the source of more affordable goods and services for customers (Ketchen *et al*., 2014; London *et al*., 2014).

A catalyst for these positive representations has been recognition that informal entrepreneurship is not always necessity-driven endeavor but often a matter of choice (Cross, 2000; Franck, 2012; Gërxhani, 2004; Maloney, 2004; Perry and Maloney, 2007; Williams, 2009; Williams and Gurtoo, 2012; Williams and Youssef, 2015). This has led to two agency-oriented theories of informal entrepreneurship. Firstly, a group of "legalist" scholars view informal entrepreneurs as rational economic actors weighing up the costs of informality and benefits of formality and deciding not to operate in the formal economy. Informal entrepreneurship is therefore, asserted to be more prevalent in developing than developed countries due to formalization having higher costs (e.g., time and effort to formally register, burdensome regulations, compliance costs) and fewer benefits (De Soto, 1989, 2001; Nwabuzor, 2005), which means that the costs of formalizing exceed the benefits (Cross 2000).

Secondly, and grounded in institutional theory (North, 1990), another agency-oriented group of scholars adopt a more "social actor" perspective. This views informal entrepreneurship as taking place beyond formal institutional prescriptions of what is legal but within the norms, values and beliefs of informal institutions and therefore as socially legitimate endeavor (Kistruck et al., 2014; Siqueira et al., 2014; Webb et al., 2009). Therefore, informal sector entrepreneurship is the product of formal institutional deficiencies, such as relatively weak legal and contract enforcement systems (Puffer et al., 2010; Sutter et al., 2013), and/or "because of the incongruence between what is defined as legitimate by formal and informal institutions" (Webb et al. 2009: 495). When formal and informal institutions are not aligned, the outcome is informal entrepreneurship (De Castro et al., 2014; Kistruck et al., 2015; Siqueira et al., 2014; Vu, 2014; Webb et al., 2013, 2014). Indeed, the greater the asymmetry, the higher is the level of informal entrepreneurship (Williams and Horodnic, 2015; Williams and Shahid, 2015).

Despite this emergence of such positive re-representations of informal entrepreneurship, what is perhaps surprising is that very few scholars have questioned the belief that informal entrepreneurship is associated with weaker firm performance (i.e., the poorer performance thesis).

2.2. *Informal Entrepreneurship and Firm Performance*

The long-standing dominant representation of informal entrepreneurship is that it is poorly performing endeavor compared with formal entrepreneurship (ILO, 2007; Farrell, 2004; Palmer, 2008). This poorer performance thesis is apparent to different degrees in all representations of informal entrepreneurship. Firstly, modernization theory represents enterprises operating in the informal sector as much more inefficient than enterprises in the formal sector, as operating in different "bottom of the pyramid" markets and due to their inefficiency as incapable of offering lower prices for the same products sold by formal enterprises (La Porta and Shleifer, 2008, 2014). Secondly, the political economy approach represents the informal sector as composed of low-productivity necessity-driven entrepreneurs, requiring low levels of start-up capital, who stay small to evade detection, and do not achieve the economies of scale to be efficient, although the cost advantages achieved by evading taxes and regulations offsets their small scale and low productivity (Farrell, 2004; Palmer, 2008). This poorer performance thesis even exists among scholars advocating positive agency-oriented viewpoints. The rational economic actor and social actor explanations represent informal entrepreneurs as less productive than formal entrepreneurs and a product of the failure of "weak" institutions to provide benefits for being formal and legitimate (De Soto, 1989; Kistruck et al., 2014; Wunsch-Vincent et al., 2015).

However, the evidence-base to support this poorer performance thesis is weak. Most scholarship on this issue simply cites what they often refer to as the seminal study by La Porta and Shleifer (2008: 344) who find that "Productivity is much higher in small formal firms than in informal firms, and it rises rapidly with the size of formal firms". However, it is important to analyze the evidence underpinning this often-cited conclusion. These two scholars analyze World Bank Informal Surveys in 13 countries and Micro-Enterprise Surveys in 14 countries (19 in Africa, six in Asia and two in Latin America). The Informal Surveys comprised on average 31 registered and 192 unregistered firms, and the Micro-Enterprise Surveys comprised on average 137 registered and 77 unregistered enterprises (i.e., a total sample of 2,321 registered and 3,574 unregistered enterprises). Nor was the sample representative. The sampling strategy in each country was that "World Bank contractors identified neighborhoods perceived to have a large number of informal firms" (La Porta and Shleifer, 2008: 295). Moreover, examining the results of this small unrepresentative sample, they find statistically significant differences in the performance of registered and unregistered enterprises in only 10 of the 25 countries on value added per employee at the 0.1 level (and four countries at the 0.01 level), only 17 of the 26 countries on sales per employee at the 0.1 level (and 12 at the 0.01 level), and in only 18 of the 26 countries on output per employee at the 0.1 level (12 at the 0.01 level). Hence, significant differences in the performance of formal and informal enterprises are far from universal. Indeed, unregistered enterprises outperformed registered enterprises in six of the 25 countries on value added per employee, three of the 26 countries on sales per employee and four of the 26 on output per employee (see La Porta and Shleifer, 2008: Tables 13 and

14). More importantly, and seldom noted by those using this study to support the poorer performance thesis, these two scholars explicitly state that the overall productivity gap disappears and "unregistered firms are not unusually unproductive once we take into account their expenditure on inputs, the human capital of their top managers, and their small size" (La Porta and Shleifer, 2008: 335). In other words, once they control for other determinants of firm performance, unregistered enterprises are no longer statistically worse performing than formal enterprises.

In the few other studies of this poorer performance thesis, the evidence is similarly weak (Fajnzylber et al., 2009; Farrell 2004; McKinsey Global Institute, 2003). For example, Fajnzylber et al. (2009) claim that Mexican enterprises paying taxes exhibit between 15-60% higher "productivity" levels, but their measure of productivity is profit levels and self-employment income and they fail to control for many of the firm-level determinants influencing firm performance.

Importantly for this paper, this poorer performance thesis has been similarly applied to formal enterprises which start-up unregistered relative to enterprises registered from the outset. As La Porta and Shleifer (2008: 279) state in this regard, "the differences in productivity between formal and informal firms are so large that it is hard to believe that simply registering unregistered firms would eliminate the gap." The only known study finding that formal enterprises starting-up unregistered witness poorer firm performance than enterprises registered from the outset of operations uses World Bank survey data on 355 unregistered start-ups across seven Latin American countries (104 in Colombia, 72 in Argentina, 72 in Bolivia, 66 in Mexico 20 in Peru, 12 in Uruguay and nine in Panama). Perry et al. (2007: 173) conclude that unregistered start-ups "at least initially, exhibit on average, much lower levels of output per worker, after controlling for firm size, time in business, sector and region". However, this is a small sample, the productivity gap is statistically significant in only four of the seven countries studied and the headline average national figure of 29% lower productivity for unregistered start-ups is heavily biased by the Peru figure where the productivity gap is over 50%, is not statistically significant, and only 20 unregistered start-ups were surveyed. Given the strong consensus but weak evidence-base to support the poorer performance thesis, it is perhaps obvious that questions need asking about the supposedly negative relationship between non-registration at start-up and firm performance.

Although formal enterprises starting-up unregistered are viewed as subsequently worse performing than those registering from the outset, the opposite could be also argued. Many entrepreneurs operate unregistered as a matter of choice rather than due to a lack of choice (Gërxhani, 2004; Maloney, 2004; Perry and Maloney, 2007; Williams and Youssef, 2015). Therefore, it could be argued that those formal enterprises that are unregistered during their start-up phase choose to do so to evade paying taxes, avoid burdensome regulations and the additional costs imposed on formal enterprises by corrupt public sector officials for example. It is perhaps no surprise if they outperform enterprises suffering such constraints from the start of their venture. As La Porta and Shleifer (2014) recognize, formal enterprises have to pay taxes and comply with regulations, so have a cost disadvantage

compared with those unregistered at start-up. Therefore, starting-up unregistered may have a positive influence on subsequent firm performance. Moreover, if registration does not result in significant benefits from formality, such as public goods provision by government, new market opportunities such as public sector contracts, and access to credit, then the costs of registration will outweigh the benefits. Three studies have so far shown this to be the case in India (Williams and Kedir, 2016), Africa (Williams and Kedir, 2017) and across 142 countries in the developing world (Williams et al, 2017). No studies so far have been undertaken in Europe. This is the intention here in this paper. Therefore, to evaluate whether there is better subsequent firm performance by formal enterprises that started-up unregistered compared with those that registered from the outset, the following hypothesis can be tested:

> *Hypothesis*: Formal enterprises that started-up unregistered display better subsequent firm performance than those starting-up registered, ceteris paribus.

3. Data, Variables and Methods

3.1. *Data*

To empirically test the comparative firm performance of formal enterprises that started-up unregistered and registered, a WBES survey conducted in 2019 in Albania is reported, a country with one of the highest levels of informality in Europe (Schneider and Williams, 2013). Data from 377 formal enterprises with five or more employees were collected using a stratified random sample. Three criteria were used for the stratification: size, sector and region. Size was defined using the number of employees. Small firms refer to those with 5-19 employees, medium firms refer to those with 20-99 employees and large firms refer to those with more than 100 employees. Sector consisted of firms operating in manufacturing, services, transportation and construction while public utilities, government services, health care, and financial services sectors were excluded from the survey. Three main regions were used for the geographical stratification: Northern Albania comprising Dibër, Durrës, Kukës, Lezhë, Shkodër, Central Albania comprising Tirana and Elbasan and Southern Albania comprising Berat, Fier, Gjirokastër, Korçë, and Vlorë. To design the sample, two sources were used: the existing list of 360 firms WB surveyed in 2013 and new firms received from Albanian Statistical Business Register (INSTAT), dated as of December 2017.

3.2. *Variables*

3.2.1. *Dependent variable*

To measure the firm performance of formal enterprises in Albania, the real annual sales growth is utilized. This serves as the dependent variable. Real annual sales growth is expressed in percentage terms. All sales values are transformed from Albanian currency (All) to USD while taking into consideration the exchange rate in the corresponding fiscal year of the survey. Drawing on the USD deflator, it is performed as a sales deflation to 2009.

3.2.2. *Key independent variable*

To test the determinants of future firm performance, a key predictor used is started-up unregistered**.** This variable is a firm-level measure stemming from the question "Was this establishment formally registered when it began operations?". This variable takes value 1 when the enterprise started its activity in Albania without formal registration and 0 when the enterprise started its operations after having registered.

3.2.3. *Control Variables*

To evaluate whether formal enterprises that started-up unregistered experience different levels of firm performance compared with those enterprises that registered since the beginning, other firm performance determinates are controlled for. Hence, we control for variables which are confirmed in other studies to significantly influence firm performance, namely firm size, export orientation, access to finance, transport constraint, electricity constraint product and process innovation and foreign ownership.

There is a wide body of literature that confirms firm size to be a determinant of firm performance, indicating that the larger the firm the better the performance (Hsieh and Olken 2014; La Porta and Shleifer 2014). In this paper, firm size is a categorical variable that takes value 1 for small size firms which employee 5-19 employees, value 2 for medium size firms which employee between 20 and 99 employees, and value 3 for large size firms which employee more than 100 employees.

The ownership of the enterprise is considered as a control variable. This dummy variable takes value 1 if more than 49% of the firm is owned by foreign individuals and 0 otherwise.

Export-oriented firms are confirmed from various studies to have higher levels of performance than those operating only domestically (La Porta and Shleifer, 2008). In this paper export-orientation is considered as a control variable and takes value 1 meaning that at least 1% of sales comes from export and value 0 meaning that firms export less than 1% or do not export at all.

Access to finance is confirmed to significantly impact firm performance. This influence is analyzed in two dimensions. First, unregistered enterprises find it difficult to

have access to finance from formal creditors. Consequently, unregistered enterprises look for other informal sources of finance that are usually more expensive than formal loans. Second, having this financial constraint, unregistered enterprises are prone to replace labor for physical capital (Amaral and Quintin, 2006; Cull et al., 2007). Access to credit is a dummy variable that takes value 1 when firms have access to credit and 0 otherwise.

Innovation is considered another determinant of firm performance. In this paper, the OECD Oslo Manual (2005) is utilized to define innovation. According to this manual, companies can introduce four types of innovation. We refer to product and process innovation on firm level that are closely connected to technological developments. Product innovation happens when firms introduce new or significantly improved goods or services while process innovation refers to the introduction of new or significantly improved production or delivery methods (OECD Oslo Manual, 2005). There is a wide literature that confirms the positive impact innovation has on firm performance (Fagerberg et al., 2004; Gunday et al., 2011). On the other side, there is abundance of research that find less innovation adopted in informal enterprises compared to those formalised. Informal enterprises are more inclined to copycat instead of innovate (Grimm et al., 2012; Kabecha, 1998; Ullah et al., 2019; Wunsch-Vincent et al., 2015). Hence, it is necessary to control the influence of innovation of unregistered enterprises into the future performance. To do so, innovation is measured with two variables, product and process innovation. Product innovation is a dummy variable that takes value 1 if the establishment has introduced new or improved products or services during over the span of last three years and takes value 0 if otherwise. Process innovation is a dummy variable that takes value 1 if the establishment has introduced new or improved processes over the last three years and takes value 0 if otherwise.

Finally, it is controlled if the business environment has impacts on firm performance. To do this, three control variables are used to assess whether they represent an obstacle for businesses, namely: transport, a dummy variable that takes value 1 if it represents a major constraint to business's activity and 0 otherwise; electricity, a dummy variable that takes value 1 if it represents a major constraint to business's activity and 0 otherwise, and access to credit, a dummy variable that takes value 1 if it represents a major constraint to business's activity and 0 otherwise.

3.3. *Modelling Framework*

Considering that the dependent variable, namely the level of annual sales growth, is a continuous variable, a linear regression model is employed to determine whether formal enterprises unregistered at start-up have better annual sales growth than those registered from the outset. Model 1 considers solely the control determinants while Model 2 estimates both the control variables and key independent variable. The following econometric model represents the final pattern where the $\beta 0$ represents the intercept, Xi represents the vector of independent variable and εi represents the error term.

$$\text{Annual Sales Growth} = \beta 0 + \beta 1 Xi + \ldots \beta_n n + \varepsilon i$$

4. Findings

The descriptive statistics shows that 6.6% of the formal enterprises surveyed in Albania started-up unregistered. There is an increasing number of studies in Albania which evaluate the determinants of the informal sector and informal entrepreneurship (Kosta and Williams, 2018; Williams and Kosta, 2019). However, there have been no studies evaluating the relationship between nonregistration and firm performance.

Before evaluating this relationship, it is necessary to diagnose if all of the assumptions are satisfied in order to justify the use of the linear regression model. First, a normality test was conducted and the conclusion was a normal distribution of nonregistration and firm performance data. We tested for heteroscedasticity. The scatter plot shows residuals to be randomly scattered around zero. So there is no heteroscedasticity. In addition, the inter-correlation between independent variables was tested. The result was that the Variable Inflated Factor (VIF) were all below 3 (far lower than the threshold of ten), which means that multi-collinearity does not represent a problem. Furthermore, the R-squared in Table 1 varies from 5% (basic model) to 6.8% (full model), meaning that the two linear regression models explain some seven percent of variation in the dependent variable.

The descriptive statistics display formal enterprises unregistered at the outset of their operations have a better performance compared with those registered from the outset. More specifically, those formal enterprises that were unregistered at start-up had 114% higher annual sales growth compared with formal enterprises registered from the outset of their operations. However, other determinants of firm performance should be controlled for to have a clearer and more accurate understanding.

To evaluate the relationship between the dependent variable and independent variables, we use the linear regression model. Model 1 examines the correlation between the control variables and firm performance, measured through the annual sales growth. The results show no statistically significant relationship between firm size and firm performance. In addition, the analysis shows no significant relationship between export-oriented firms and firm performance. The same stands true for companies owned by foreign individuals. When it comes to the business environment obstacles, the results substantiate the transport constraint and electricity constraint to be strong predictors. However, access to credits does not seem to predict firm performance. Process innovation was a strong determinant of firm performance while this is not true for product innovation.

Model 2 is composed of both control variables, independent variables and the dependent variable. In model 2, the results with regard to firm size, export orientation, foreign ownership and product innovation, persist as in Model 1. It is worthwhile to point out a key finding in terms of impact of innovation on firm performance. Process innovation continues to be a strong determinant. Firms that use new or significantly improved production methods, have a better sales performance. The important finding in Table 1 is that starting-up unregistered is positively and significantly associated with higher annual sales growth (confirming H1). After other control variables are taken into account, the key

finding is that formal enterprises that started-up unregistered have annual sales growth 0.933 percentage points higher than those starting-up registered from the outset of their operations.

Table 1: Determinants of firm performance, Albania, 2019: linear regression model

	Model 1: Basic model		**Model 2: Annual sales growth as a dependent variable**	
Variable	Beta	Std. Error	Beta	Std. Error
Started Unregistered			.933**	.408
Exporter	-.271	.255	-.253	.254
Foreign Ownership	.217	.419	.258	.416
Firm size (RC: Small)				
Medium	-.245	,291	-,230	.289
Large	.097	,318	,142	.316
Major constraints				
Access to Loan	-.262	,235	-,289	.234
Transport constraint	.522*	,324	,549**	.322
Electricity constraint	-.462**	,227	-,442**	.225
Innovation				
Product innovation	.193	.218	.217	.217
Process innovation	.601**	.260	.578**	.258
(Constant)	.661***	.210	.559***	.213
Observations	377		377	
R-squared	.050		.068	

*Standard errors in parentheses: ****p* < 0,01, ***p* < 0,05, **p* < 0,1.*

5. Discussion and Conclusions

Analyzing 2019 WBES data, this paper reveals that in Albania, 1 in 15 formal private sector enterprises with five or more employees had started-up unregistered. For these formal enterprises, starting-up unregistered is positively and significantly associated with higher subsequent sales growth. Therefore, the hypothesis is confirmed that formal enterprises that started-up unregistered have better subsequent firm performance than those starting-up registered from the outset, ceteris paribus.

This finding has important wider theoretical implications. By displaying that formal enterprises in Albania that started-up unregistered do not display weaker subsequent firm performance than those registered from the outset, it contributes to the advancement of theory away from negative representations of informal entrepreneurship. Instead, by revealing that nonregistration at start-up significantly boosts subsequent sales, a more positive representation emerges. This displays that for these formal enterprises, the benefits of starting-up unregistered outweigh the benefits of registering at the outset, reflected in the higher subsequent firm performance of those starting-up unregistered. It tentatively intimates that the deficiencies of the formal institutional environment, which lead to few

benefits of registration, and a low probability of detection and punishment for informal enterprises, plays a key role in determining the prevalence of informal entrepreneurship.

This has important implications for policy. For many decades, grounded in a negative theorization of informal entrepreneurship as poorer performing, the conventional policy approach was to seek the eradication of informal enterprises. Based on the Allingham and Sandmo (1972) rational economic actor approach that seeks to change the cost/benefit ratio of informality by increasing the costs of operating informally and benefits of operating formally, governments predominantly focused upon increasing the costs by raising the penalties and risk of detection. This paper suggests that reducing the costs and improving the benefits of registration is necessary since the benefits appear to be currently insufficient to outweigh the benefits of nonregistration at start-up in Albania, reflected in the weaker subsequent firm performance. This requires a simplification of registration, and a reduction in the costs and improvement in the benefits of registration (Maloney, 2004; McKenzie and Woodruff, 2006). There is thus a need to tackle the systemic formal institutional deficiencies that result in entrepreneurs starting-up on an unregistered basis.

However, tackling formal institutional deficiencies is not only required to change the rational economic calculation of entrepreneurs. Grounded in institutional theory, it has been recently recognized that informal entrepreneurs are also often social actors (De Castro et al., 2014; Webb et al., 2009, 2013, 2014; Williams and Laden, 2019; Williams and Shahid, 2015). Informal entrepreneurship arises when entrepreneurs' norms, values and beliefs are not in symmetry with the prescriptions of formal institutions. There is thus a need also to tackle the formal institutional imperfections that lead entrepreneurs to lack commitment to the laws and regulations of the formal institutional environment. Two types of alteration in formal institutions are required. Firstly, tax fairness, procedural justice and redistributive justice need to be improved. Tax fairness refers to the degree to which entrepreneurs believe they pay their fair share relative to others (Wenzel, 2004). Redistributive justice refers to whether they believe that they receive the goods and services they feel that they deserve given the taxes they pay (Richardson and Sawyer, 2001) and procedural justice to the extent to which they feel that the tax authority has treated them in a respectful, impartial and responsible manner (Braithwaite and Reinhart, 2000; Murphy, 2005). Secondly, formal institutions need to provide greater social protection, less public sector corruption and more effective social transfer mechanisms, all of which have been revealed to be strongly associated with lower levels of informal entrepreneurship (Autio and Fu, 2015; Dau and Cuervo-Cazzurra, 2014; Horodnic and Williams, 2019; Klapper et al., 2007; Thai and Turkina, 2014; Williams, 2017, 2019).

Nevertheless, it is necessary to highlight the limitations of this study. Only one country is analyzed and the survey only reveals that formal enterprises with five more employees that started-up unregistered have higher subsequent sales growth than those registered from the outset. It does not reveal that unregistered enterprises as a whole outperform registered enterprises as a whole. Despite this, there are some very tentative clues that this might be the case and this requires investigation in future research. Akin to formal enterprises that delay their registration, they function under the same conditions that boost firm

performance, including being able to avoid taxes, burdensome regulations and corrupt public sector officials. In consequence, future research should evaluate the firm performance of unregistered compared with registered enterprises, especially given the current weak evidence-base supporting the poorer performance thesis of unregistered enterprises (e.g., La Porta and Shleifer, 2008). Another limitation is that this study has been unable to evaluate the reasons entrepreneurs operate unregistered (e.g., whether they are simply awaiting registration, deliberately testing the venture's viability before registering, or have no intent to register) or their reasons for registering (e.g., better access to finance or markets, fewer bribes, better opportunities with formal firms, more access to government programs). Neither has it been able to evaluate how each of these influence subsequent firm performance. Future research needs to do this, not least in order to tailor policy measures. Finally, these findings also suggest that rigorous evaluation is required of other negative and potentially positive impacts of informal entrepreneurship, such as whether they provide more affordable goods and services to customers.

In sum, this paper has revealed that formal enterprises unregistered at start-up outperform those that started-up registered in Albania, calling into question the long-standing poorer performance thesis of informal entrepreneurship. If this stimulates similar research in other countries and global regions, especially developed nations, and evaluations of other supposedly negative and positive impacts of informal entrepreneurship, then this paper will have fulfilled one of its intentions. If the policy approach that seeks to deter rather than formalize informal entrepreneurship is questioned, this paper will have achieved its fuller intention. What is now certain is that the currently dominant negative representation of informal entrepreneurship as poorer performing can no longer be simply assumed as valid across the world without providing evidence to support this assertion.

6. References

Allingham, M and A Sandmo (1972). Income tax evasion: a theoretical analysis. *Journal of Public Economics*, 1(2), 323-38.

Amaral, PS and E Quintin (2006). A competitive model of the informal sector. *Journal of Monetary Economics,* 53, 1541-1553.

Autio, E and K Fu (2015). Economic and political institutions and entry into formal and informal entrepreneurship. *Asia Pacific Journal of Management*, 32(1), 67-94.

Bajada, C and F Schneider (2005). The shadow economies of the Asia-Pacific. *Pacific Economic Review*, 10(3), 379-401.

Barbour, A and M Llanes (2013). *Supporting People to Legitimise their Informal Businesses*. York: Joseph Rowntree Foundation.

Baumol, WJ (1990). Entrepreneurship: productive, unproductive and destructive. *Journal of Political Economy*, 98, 893-921.

Braithwaite, V and M Reinhart (2000). *The Taxpayers' Charter: does the Australian Tax Office comply and who benefits.* Canberra: Centre for Tax System Integrity Working Paper no.1, Australian National University.

Castells, M and A Portes (1989). World underneath: the origins, dynamics and effects of the informal economy. In *The Informal Economy: studies in advanced and less developing countries*, A Portes, M Castells and L Benton (eds.), pp. 1-19. Baltimore: John Hopkins University Press.

Chepurenko, A (2018). Small family business in Russia: Formal or informal? *International Journal of Sociology and Social Policy*, 38(9/10), 809-22.

Coletto, D and L Bisschop (2017). Waste pickers in the informal economy of the global South: Included or excluded? *International Journal of Sociology and Social Policy*, 37(5/6), 280-94.

Cross, JC (2000). Street vendors, modernity and postmodernity: conflict and compromise in the global economy. *International Journal of Sociology and Social Policy*, 20(1), 29-51.

Cull, R, D McKenzie and C Woodruff (2007). Experimental evidence on returns to capital and access to finance in Mexico. Washington DC: World Bank.

Dau, LA and A Cuervo-Cazurra (2014). To formalize or not to formalize: entrepreneurship and pro-market institutions. *Journal of Business Venturing*, 29, 668-86.

Davis, M (2006). *Planet of Slums.* London: Verso.

De Beer, J, K Fu and S Wunsch-Vincent (2013). *The Informal Economy, Innovation and Intellectual Property: concepts, metrics and policy considerations.* Geneva: Economic Research Working Paper no. 10, World Intellectual Property Organization.

De Castro JO, S Khavul and GD Bruton (2014). Shades of grey: how do informal firms navigate between macro and meso institutional environments? *Strategic Entrepreneurship Journal*, 8, 75-94.

De Soto, H (1989). The Other Path: the economic answer to terrorism. London: Harper and Row.

De Soto, H (2001). The Mystery of Capital: why capitalism triumphs in the West and fails everywhere else. London: Black Swan.

Fagerberg, J, DC Mowery and RR Nelson (2005) (eds.). *The Oxford handbook of innovation*. Oxford: Oxford University Press.

Fajnzylber, P, W Maloney and G Montes Rojas (2009). Releasing constraints to growth or pushing on a string? policies and performance of Mexican micro-firms. *Journal of Development Studies*, 45, 1027–1047.

Farrell, D (2004). The hidden dangers of informal economy. *McKinsey Quarterly*, 3, 27-37.

Franck, AK (2012). Factors motivating women's informal micro-entrepreneurship: experiences from Penang, Malaysia. *International Journal of Gender and Entrepreneurship*, 4(1), 65-78.

Geertz C (1963). Old Societies and New States: the quest for modernity in Asia and Africa. Glencoe, IL: Free Press.

Gërxhani, K (2004). The informal sector in developed and less developed countries: a literature survey. *Public Choice*, 120(3/4), 267-300.

Gilbert, A (1998). *The Latin American City*. London: Latin American Bureau.

Grimm, M, P Knorringa and J Lay (2012). Constrained gazelles: high potentials in West Africa's informal economy. *World Development,* 40(7), 1352-1368.

Gunday, G, G Ulusoy, K Kilic and L Alpkan (2011). Effects of innovation types on firm performance. *International Journal of Production Economics*, *133*(2), 662-676.

Horodnic, I and CC Williams (2019). Evaluating policy approaches for tackling informal entrepreneurship. *Journal of Small Business and Enterprise Development*, 26(4), 595-611.

Hsieh, CT and BA Olken (2014). The missing middle. *Journal of Economic Perspectives*, 28(3), 89-108.

ILO (2007). The decent work agenda in Africa 2007-15. Geneva, ILO.

ILO (2013). *Women and men in the informal economy: statistical picture*, available at https://books.google.al/books/about/Women_and_Men_in_the_Informal_Economy.html?id=gZx9xwEACAAJ&source=kp_cover&redir_esc=y (last accessed 10 January 2020).

ILO (2014). *Transitioning from the informal to the formal economy*. Report V (1), International Labour Conference, 103rd Session (2014). Geneva: ILO.

Kabecha, WW (1998). Technological capability of the micro-enterprises in Kenya's informal sector. *Technovation,*19(2), 117-126.

Karki, ST and M Xheneti (2018). Formalizing women entrepreneurs in Kathmandu, Nepal: Pathway toward empowerment? *International Journal of Sociology and Social Policy*, 38(7-8), 526-54.

Ketchen, DJ, RD Ireland and JW Webb (2014). Towards a research agenda for the informal economy: a survey of the Strategic Entrepreneurship Journal's Editorial Board. *Strategic Entrepreneurship Journal*, 8, 95-100.

Kistruck, GM, JW Webb, CJ Sutter and AVG Bailey (2015). The double-edged sword of legitimacy in base-of-the-pyramid markets. *Journal of Business Venturing*, 30(3), 436-51.

Klapper, L, R Amit, MF Guillen and J-M Quesdada (2007). *Entrepreneurship and Firm Formation across Countries*. Washington DC: Policy Research Working Paper series 4313, World Bank.

Kosta, B and CC Williams (2018) *Diagnostic Report on Undeclared Work in Albania*. Sarajevo: Regional Cooperation Council.

La Porta, R and A Shleifer (2008). The Unofficial Economy and Economic Development. *Brookings Papers on Economic Activity,* 47(1), 123-135.

La Porta, R and A Shleifer (2014). Informality and Development. *Journal of Economic Perspectives*, 28(3), 109-126.

Leal Ordóñez, JC (2014). Tax collection, the informal sector and productivity. *Review of Economic Dynamics*, 17, 262-286.

Lewis, A (1959). *The Theory of Economic Growth*. London: Allen and Unwin.

Lewis, WW (2004). The Power of Productivity: wealth, poverty, and the threat to global stability. Chicago: University of Chicago Press.

Lin, S (2018). We work like ants…we avoid being troublemaker: An exploratory inquiry on resilience of Chinese street vendors in the urban village. *International Journal of Sociology and Social Policy*, 38(11/12), 1024-1040.

London, T, H Esper, A Grogan-Kaylor and GM Kistruck (2014). Connecting poverty to purchase in informal markets. *Strategic Entrepreneurship Journal*, 8, 37-55.

Maloney, WF (2004). Informality revisited. *World Development*, 32(7), 1159-78.

Mannila, S and G Eremicheva (2018). Some risks of informal business in Russia—A case study from Saint Petersburg. *International Journal of Sociology and Social Policy*, 38(9/10), 823-36.

McKenzie, D and C Woodruff (2006). Do entry costs provide an empirical basis for poverty traps? Evidence from microenterprises. *Economic Development and Cultural Change* 55(1), 3-42

McKinsey Global Institute (2003). *Turkey: Making the Productivity and Growth Breakthrough*. New York: McKinsey.

Meagher, K (2010). Identity Economics: social networks and the informal economy in Nigeria. New York: James Currey.

Murphy, K (2005). Regulating more effectively: the relationship between procedural justice, legitimacy and tax non-compliance. *Journal of Law and Society*, 32(4), 562-89.

North, DC (1990). Institutions, Institutional Change and Economic Performance. Cambridge: Cambridge University Press.

Nwabuzor, A (2005). Corruption and development: new initiatives in economic openness and strengthened rule of law. *Journal of Business Ethics*, 59(1/2), 121-38.

Ogando, A, S Roever and M Rpgan (2017). Gender and informal livelihoods. *International Journal of Sociology and Social Policy*, 37(7/8), 435-51.

Palmer, R (2007). Skills development, the enabling environment and informal micro-enterprise in Ghana. Edinburgh: University of Edinburgh.

Perry, GE and WF Maloney (2007). Overview - informality: exit and exclusion. In *Informality: exit and exclusion,* pp.1-20. GE Perry, WF Maloney, OS Arias, P Fajnzylber, AD Mason and J Saavedra-Chanduvi (eds.). Washington DC: World Bank.

Perry, GE, WF Maloney, OS Arias, R Fajnzylber, AD Mason and J Saavedra-Chanduvi. (2007) (eds.). *Informality: Exit and Exclusion*. Washington, DC: World Bank.

Petersen, L and A Charman (2018). The role of family in the township informal economy of food and drink in KwaMashu, South Africa. *International Journal of Sociology and Social Policy*, 38(7-8), 564-77.

Puffer, SM, DJ McCarthy and M Boisot (2010). Entrepreneurship in Russia and China: The impact of formal institutional voids. *Entrepreneurship Theory and Practice*, 34(3), 441-467.

Ram, M, P Edwards, T Jones and M Villaries-Varela (2017). From the informal economy to the meaning of informality: Developing theory on firms and their workers. *International Journal of Sociology and Social Policy*, 37(7/8), 361-73.

Richardson, M and A Sawyer (2001). A taxonomy of the tax compliance literature: further findings, problems and prospects. *Australian Tax Forum, 16*(2), 137–320.

Schneider, F and CC Williams (2013). *The shadow economy.* London: Institute of Economic Affairs.

Siqueira, ACO, JW Webb and GD Bruton (2016). Informal Entrepreneurship and Industry Conditions. *Entrepreneurship Theory and Practice*, 40(1), 177-200.

Slavnic, Z (2010). Political economy of informalisation. *European Societies*, 12(1), 3-23.

Statistical Office of the European Communities. (2005). *Oslo Manual: Guidelines for collecting and interpreting innovation data* (No. 4). Paris: OECD.

Sutter, CJ, JW Webb, GM Kistruck and AVG Bailey (2013). Entrepreneurs' responses to semi-formal illegitimate institutional arrangements. *Journal of Business Venturing*, 28(5), 743-58.

Taiwo, O (2013). Employment choice and mobility in multi-sector labour markets: theoretical model and evidence from Ghana. *International Labour Review*, 152(3–4), 469–92.

Thai, MTT and E Turkina (2014). Macro-level determinants of formal entrepreneurship versus informal entrepreneurship. *Journal of Business Venturing*, 29(4), 490-510.

Tonoyan, V, R Strohmeyer, M Habib and M Perlitz (2010). Corruption and entrepreneurship: how formal and informal institutions shape small firm behaviour in transition and mature market economies. *Entrepreneurship Theory and Practice*, 34(5), 803-31.

Ullah, S, CC Williams and B Wassim (2019). The impacts of informality on enterprise innovation, survival and performance: some evidence from Pakistan. *Journal of Developmental Entrepreneurship*, 24(3), 1-19.

Vu, TT (2014). Institutional Incongruence and the Informal Economy: an Empirical Analysis. Paper presented at the European Public Choice Society meeting, Cambridge. <http://www.econ.cam.ac.uk/epcs2014/openconf/modules/request.php?module=oc_programandaction=summary.phpandid=54

Webb, JW, GD Bruton, L Tihanyi and RD Ireland (2013). Research on entrepreneurship in the informal economy: framing a research agenda. *Journal of Business Venturing*, 28, 598-614.

Webb, JW, RD Ireland and DJ Ketchen (2014). Towards a greater understanding of entrepreneurship and strategy in the informal economy. *Strategic Entrepreneurship Journal*, 8(1), 1-15.

Webb, JW, L Tihanyi, RD Ireland and DG Sirmon (2009). You say illegal, I say legitimate: entrepreneurship in the informal economy. *Academy of Management Review*, 34(3), 492-510.

Wenzel, M (2004). An analysis of norm processes in tax compliance. *Journal of Economic Psychology*, 25(2), 213-228.

Williams, CC (2009). The motives of off-the-books entrepreneurs: necessity- or opportunity-driven? *International Entrepreneurship and Management Journal*, 5(2), 203-217.

Williams, CC (2015a). Explaining cross-national variations in the scale of informal employment: an exploratory analysis of 41 less developed economies. *International Journal of Manpower*, 36(2), 118-135.

Williams, CC (2015b). Out of the margins: classifying economies by the prevalence and character of employment in the informal economy. *International Labour Review*, 154(3), 331-352.

Williams, CC (2017) *Entrepreneurship in the Informal Sector: an institutional perspective*, Routledge, London.

Williams, CC (2019) *The Informal Economy*, New York: Columbia University Press.

Williams, CC and A Gashi (2020). Beyond the marginalization thesis: an evaluation of the prevalence, character and motives of informal sector entrepreneurs in Kosovo", *Journal of Developmental Entrepreneurship*, 25(3), 1-17.

Williams, CC and A Gurtoo (2012). Evaluating competing theories of street entrepreneurship: some lessons from Bangalore, India. *International Entrepreneurship and Management Journal*, 8(4), 391-409.

Williams, CC and I Horodnic (2015). Evaluating the prevalence of the undeclared economy in Central and Eastern Europe: an institutional asymmetry perspective. *European Journal of Industrial Relations*, 21(4), 389-406.

Williams, CC and A Kedir (2016). Business registration and firm performance: some lessons from India. *Journal of Developmental Entrepreneurship*, 21(3), 1-20.

Williams, CC and A Kedir (2017). Evaluating the impacts of starting-up unregistered on firm performance in Africa. *Journal of Developmental Entrepreneurship*, 22(2), 1-19.

Williams, CC and B Kosta (2019). Evaluating institutional theories of informal entrepreneurship: some lessons from Albania. *Journal of Developmental Entrepreneurship*, 24(1), 1-17

Williams, CC and U Laden (2019). Evaluating theorizations of informal sector entrepreneurship: some lessons from Zamfara, Nigeria. *Journal of Developmental Entrepreneurship*, 24(12), 1-17

Williams, CC and B. Liu (2019). Explaining variations in the commonality of informal sector competition in Latin American and Caribbean countries. *Journal of Developmental Entrepreneurship*, 24(1), 1-18.

Williams, CC and A Martinez-Perez (2014a). Is the informal economy an incubator for new enterprise creation? a gender perspective. *International Journal of Entrepreneurial Behaviour and Research* 20*(*1), 4-19.

Williams, CC and A Martinez-Perez (2014b). Why do consumers purchase goods and services in the informal economy? *Journal of Business Research*, 67(5), 802-806.

Williams, CC and M Shahid (2015). Informal entrepreneurship and institutional theory: explaining the varying degrees of (in)formalisation of entrepreneurs in Pakistan. *Entrepreneurship and Regional Development*, 28(1-2), 1-25.

Williams, CC and Y Youssef (2015). Theorizing entrepreneurship in the informal sector in urban Brazil: a product of exclusion or exit?. *Journal of Entrepreneurship*, 24(2), 148-168.

Williams, CC, S Nadin and P Rodgers (2012). Evaluating competing theories of informal entrepreneurship: some lessons from Ukraine. *International Journal of Entrepreneurial Behaviour and Research*, 18*(*5), 528-43.

Williams, CC, S Nadin, S Newton, P Rodgers and J Windebank (2013). Explaining off-the-books entrepreneurship: a critical evaluation of competing perspectives. *International Entrepreneurship and Management Journal*, 9(3), 447-463.

Williams, CC, M Shahid and A Martinez (2015). Determinants of the level of informality of informal micro-enterprises: some evidence from the city of Lahore, Pakistan. *World Development*, 84, 312-325.

Williams, CC, A Martinez-Perez and A Kedir (2017). Informal entrepreneurship in developing economies: The impacts of starting-up unregistered on firm performance. *Entrepreneurship Theory and Practice*, 41(5), 773-79.

Wunsch-Vincent, S, J de Beer and K Fu (2016). What we know and do not know about innovation in the informal economy. In *The Informal Economy in Developing Nations: Hidden Engine of Innovation?: new economic insights and policies*, 142-60, E Kraemer-Mbula and S Wunsch-Vincent (eds.). Cambridge: Cambridge University Press.