

# Entrepreneurship in the informal economy

## A product of too much or too little state intervention?

Colin C. Williams and Alvaro Martinez

**Abstract:** *Over the past decade or so, two competing theoretical perspectives have arisen that explain participation in informal entrepreneurship as resulting from either too little or too much state intervention. To evaluate these competing explanations critically, the authors report on a 2012 UK survey of 595 small business owners. Twenty per cent of these owners said that they had traded informally when starting up their ventures, and the authors examine and evaluate their reasons for doing so. It was found that 41% of the entrepreneurs attributed their off-the-books trading to too little state intervention (for example, a lack of government advice and support), 35% to too much intervention (burdensome red tape, high taxes, etc) and 24% to a mix of both factors. However, a multivariate analysis displays significant socio-demographic, firm-level and regional variations in the reasons. The outcome is a call to move towards more nuanced context-bound explanations of entrepreneurship in the informal economy.*

**Keywords:** *informal sector; informal entrepreneurship; enterprise culture; enterprise creation*

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Over the past decade or so, two competing theoretical perspectives have emerged which explain the participation of entrepreneurs in the informal economy in starkly contrasting ways. A neo-liberal perspective has explained informal entrepreneurship as resulting from rational economic actors voluntarily deciding to operate in the informal economy due to the burdensome regulatory environment (Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984), whilst a political economy perspective has asserted that entrepreneurs operate in the informal economy as a result of too little state intervention, such as poor advice

and support for small businesses when starting up (Barbour and Llanes, 2013; Community Links and the Refugee Council, 2011; Copisarow, 2004; Copisarow and Barbour, 2004; Dellot, 2012; Katungi *et al*, 2006; Llanes and Barbour, 2007; Small Business Council, 2004; Williams *et al*, 2012a,b). The aim of this paper is to evaluate critically these competing perspectives by analysing whether entrepreneurs explain their participation in the informal economy as a product of too much or too little state intervention. To do this, the findings of a 2012 survey of UK small business owners who traded informally when starting their businesses are reported.

The first section of this paper briefly outlines what is known about the participation of entrepreneurs in the informal economy, followed by a review of the competing theoretical perspectives that explain such participation as being a product of either too much or too little intervention in the formal economy. In the second section, we introduce the survey data and methods used to evaluate these competing theoretical perspectives by looking at the 2012 UK survey of 595 small business owners, which examines their participation in the informal economy and their reasons for doing so. The third section reports the findings regarding their explanations for doing so, and how this varies according to the socio-demographic characteristics of the small business owner, firm-level characteristics and regional location. The fourth and final section then draws together the conclusions and calls for the current view of these theoretical perspectives as being mutually exclusive to be transcended and replaced by more nuanced context-bound explanations of entrepreneurship in the informal economy.

At the outset, what is meant here by 'the informal economy' needs to be defined. Although at least 45 different adjectives have been used to describe informality, including 'cash-in-hand', 'hidden', 'irregular', 'non-visible', 'shadow', 'undeclared', 'underground' and 'unregulated', nearly all denote what is insufficient or missing relative to the formal economy. Indeed, despite the wide range of terms employed, the strong consensus is that what is missing or absent is that this trading in goods and services is legitimate in all respects, besides the fact that it is unregistered and/or not declared to the state for tax and/or benefit purposes (European Commission, 1998; Evans *et al*, 2006; Katungi *et al*, 2006; Marcelli *et al*, 1999; OECD, 2000, 2002; Renooy *et al*, 2004; Portes, 1994; Thomas, 1992; Vershinina and Rodionova, 2011; Williams, 2006, 2010). In this paper, therefore, we examine small business owners who participate in transactions that are unregistered and/or not declared to the state for tax and/or benefit purposes.

### **Perspectives on entrepreneurship in the informal economy**

In recent years, and contrary to the conventional literature on entrepreneurship based on an 'ideal-type' depiction of entrepreneurs as 'economic heroes' (Cannon, 1991), or even 'super heroes' (Burns, 2001, p 24) who always play by the rule book (Burns, 2001; Cannon, 1991) and are treated as objects of desire (Berglund and Johansson, 2007; Jones and Spicer, 2005; Williams, 2008), an approach has emerged that unravels the lived practices of entrepreneurship. One strand of

this is the burgeoning literature on the 'dark side' of entrepreneurship. This is composed of at least two subsets of literature. One subset focuses on 'criminal entrepreneurship' and reveals that entrepreneurs not only engage in illegitimate activities (Armstrong, 2005; Bruns *et al*, 2011; de Jong *et al*, 2012; Fournier, 1998; Karjanen, 2011; McElwee, 2009a,b; McElwee *et al*, 2011; Rehn and Taalas, 2004; Sköld and Rehn, 2007; Smith and McElwee, 2013), but also that those who engage in criminal activities possess entrepreneurial attributes (Bucur *et al*, 2012; Gottschalk, 2010; Gottschalk and Smith, 2011; Smith, 2009), and include drug-dealers (Bouchard and Dion, 2009; Frith and McElwee, 2007, 2008), prostitutes and pimps (Smith and Christou, 2009).

A second subset, and the one that is here the focus of attention, examines 'informal entrepreneurship' and recognizes that entrepreneurs sometimes operate partly or wholly in the informal economy (Aidis *et al*, 2006; Antonopoulos and Mitra, 2009; Bureau and Fendt, 2011; Gurtoo and Williams, 2009; Hudson *et al*, 2012; Jones *et al*, 2006; Mróz, 2012; Ram *et al*, 2007; Small Business Council, 2004; Valenzuela, 2001; Webb *et al*, 2009; Williams, 2008, 2009a,b; Williams and Nadin, 2011, 2012a,b, 2013). In examining what is known about how many businesses start up trading in the informal economy and why they do so, however, a review of this literature reveals a paucity of evidence.

One of the few estimates available on how many businesses start up in the informal economy is a study by Williams (2008), which synthesizes the results of three studies in Russia, Ukraine and England. This finds that 96%, 51% and 23% respectively of nascent entrepreneurs operate in the informal economy in each of these countries. However, marked socio-spatial variations are identified. Examining the variations between men and women entrepreneurs, Williams (2009c) found that in England, 30% of the women, but just 11% of the men, who had started a business had not registered their enterprise and traded informally. Similarly, in Ukraine, 60% of the women, but just 43% of the men, had started up without registering their enterprise and trading informally (Williams, 2009d); and in Moscow the same tendencies were again identified (Williams and Round, 2009). Marked spatial variations also exist within countries. Comparing affluent and deprived urban and rural English localities, Williams (2010) reveals that their propensity to trade informally is greater in deprived and rural localities. In affluent urban and rural areas, some 58% and 62% respectively of early-stage entrepreneurs trade informally, but this rises to 84% and 87% in deprived urban and rural localities. The major problem with these results, however, is that they are based on face-

to-face structured interviews with just 130 entrepreneurs in England, 331 in Ukraine and 81 in Moscow.

Turning to why they do so, the focus has been upon whether informal entrepreneurs are driven by exclusion from the formal economy as a result of too little state intervention, or voluntarily decide to exit the formal economy due to too much state interference. The above-cited studies largely reveal that in any population, some are driven largely by exit motives but others by exclusion, with the proportion varying across different populations. Exclusion rationales, for example, have been shown to be more widespread in deprived populations and exit rationales in affluent populations (Williams, 2010). Similarly, women have been found to be driven more by exclusion and men by voluntary exit rationales (Grant, 2013; Williams, 2009a,b; Williams and Round, 2009). It has also been revealed that these two rationales can be co-present in individual entrepreneurs' motives and that the importance attached to each can shift over time (Franck, 2012; Williams, 2009a). This notion that informal entrepreneurs are driven by either exclusion or exit rationales derives from competing theoretical explanations regarding their reason for participation, as will now be shown.

*Neo-liberal perspective: a product of too much state intervention*

For a group of neo-liberal commentators, informal entrepreneurship is a matter of choice and a response to the overregulation of the formal sector. For such neo-liberals, informal entrepreneurs are throwing off the shackles of high taxes and a burdensome and excessively intrusive state (for example, Sauvy, 1984; De Soto, 1989) and participating in informal entrepreneurship as a rational economic decision to escape the overregulated formal economy (Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984; Schneider and Williams, 2013). Informal entrepreneurs are thus seen to operate informally of their own volition to avoid the costs, time and effort of formal registration (De Soto, 1989, 2001; Perry and Maloney, 2007; Small Business Council, 2004). As Nwabuzor (2005, p 126) asserts, 'Informality is a response to burdensome controls, and an attempt to circumvent them', or as Becker (2004, p 10) puts it, 'informal work arrangements are a rational response by micro-entrepreneurs to over-regulation by government bureaucracies'. For De Soto (1989, p 255) in consequence, 'the real problem is not so much informality as formality'.

From this perspective, therefore, informal entrepreneurship is viewed as the people's 'spontaneous and creative response to the state's incapacity to satisfy the basic needs of the impoverished masses' (De Soto, 1989, pp xiv–xv). It is a rational economic strategy

pursued by entrepreneurs whose spirit is stifled by high taxes and state-imposed institutional constraints (De Soto, 1989, 2001; Perry and Maloney, 2007; Small Business Council, 2004). The policy approach advocated, therefore, is to pursue tax reductions and reduce the 'regulatory burden'.

*Political economy perspective: a product of too little state intervention*

In stark contrast to the neo-liberal perspective, a political economy perspective views informal entrepreneurship as a product of too little rather than too much state intervention. This perspective views such endeavours as resulting from the advent of a deregulated, open world economy (Castells and Portes, 1989; Davis, 2006; Fernandez-Kelly, 2006; Gallin, 2001; Portes, 1994; Sassen, 1996; Slavnic, 2010). Informal entrepreneurship is depicted as a product of the advent of largely unregulated production and a result of too little state intervention in the economy in deregulatory regimes (Castells and Portes, 1989; Davis, 2006; Gallin, 2001; Sassen, 1996). Informal entrepreneurs are thus viewed as being excluded from the formal economy as a result of too little state intervention both to stop them entering the informal economy and to help them formalize their operations (for example, see Barbour and Llanes, 2013; Copisarow, 2004; Copisarow and Barbour, 2004; ILO, 2002). The solution, therefore, is to regulate the informal economy and increase the amount of state intervention in the economy so as to prevent such enterprises from starting up informally and to facilitate the formalization of these informal enterprises through the provision of not only much greater business advice and support, but also finance to enable them to start up formally (Community Links and the Refugee Council, 2011; Dellot, 2012; Katungi *et al*, 2006; Llanes and Barbour, 2007; Small Business Council, 2004; Williams *et al*, 2012a,b).

Given these competing perspectives and the lack of evidence on whether entrepreneurship in the informal economy is a product of too much or too little state intervention, this paper now turns to filling this gap by reporting some fresh evidence from a 2012 UK survey.

**Data, variables and methods**

To evaluate whether the participation of entrepreneurs in the informal economy is a product of too much or too little state intervention in the formal economy, in August 2012, funded by the Royal Society of the Arts (RSA), YouGov Plc GB was commissioned to conduct an online interview with a sample of the 350,000+ individuals on its survey participant database. Here, the results are reported from several questions posed to the panel

survey participants who were small business owners responsible for setting up their businesses. The responding sample has been weighted to the profile of the sample definition to provide a representative reporting sample. The profile is normally derived from census data or, if not available from the census, from industry accepted data.

Responses were received from 595 small business owners responsible for setting up a business regarding whether they had traded informally while setting up their business, and their reasons for trading informally. These small business owners were asked to select three main reasons from 11 options. Four were reasons associated with the neo-liberal perspective, namely: high personal and business taxes; burdensome red tape; the complexity of the benefits system; and personal gain. Another three were reasons associated with the political economy perspective, namely: the lack of business advice and guidance from government; the lack of financial assistance from the government and mainstream banks; and not knowing where or how to register a business. The remaining reasons were: other reasons; do not know; not applicable; and a culture of tax avoidance created by high earners.

To increase the statistical efficiency in the multivariate analyses, the 11 categories were collapsed into seven, with value 1 for those who answered that relying on the informal economy for trading was due to the high personal or business taxes or to obtain personal gains (a neo-liberal explanation); value 2 for those mentioning the burdensome red tape or the complexity of the benefit system (neo-liberal); value 3 for those referring to the lack of advice and financial support from the government or mainstream banks (a political economy explanation); value 4 for those referring to the existence of a culture of tax avoidance by high earners; value 5 for those who mentioned not knowing where or how to register a business (political economy); value 6 for those reporting other reasons; and value 7 for those who stated that it was not applicable (that is, they did not know or were unaware that entrepreneurs traded informally).

Given the categorical nature of this dependent variable, for the empirical analyses we use here a discrete choice model, namely a multinomial logit in which the reference category is those who refer to a culture of tax avoidance by high earners as their reason. The multivariate analyses presented in the next section are based on a series of additive models. Model 1 includes only the small business owners' socio-demographic characteristics, Model 2 adds firm-level characteristics and Model 3 the regional location of the business.

The independent variables used in these additive models are as follows:

- (a) *Socio-demographic variables*: a dummy variable for the small business owners' gender, with value 1 for female and 0 for male; a categorical variable for the age of the entrepreneur, with value 1 for those aged 18 to 34, value 2 for those between 35 and 44, value 3 for those aged 45 to 54, and value 4 for those over 55; and a continuous variable counting the number of decision-making tasks in which the entrepreneur is involved in the firm. The variable ranges from 0 to 28, the maximum number of tasks included in the survey.
- (b) *Firm-level variables*: a categorical variable for the number of employees, with value 1 for self-employed entrepreneurs with no employees, value 2 for those with up to two employees, value 3 for those with between three and five employees, value 4 for firms with six to nine employees, and value 5 for firms with 10 to 49 employees; a categorical variable for the annual turnover of the firm, with value 0 for those who do not report the amount, value 1 for firms that are in the first year of trading, value 2 for those reporting under £25,000, value 3 for those between £25,000 and £49,999, value 4 for those with an annual turnover between £50,000 and £99,999, value 5 for those between £100,000 and £249,999, value 6 for those reporting between £250,000 and £499,999, value 7 for those with an annual turnover between £500,000 to £999,999, and value 8 for those firms reporting between £1 million and £19.99 million; and a categorical variable for the industrial sector of the firm with value 1 for accountancy firms, value 2 for construction, value 3 for education, value 4 for firms in the financial sector, value 5 for those in the hospitality and leisure sector, value 6 for IT and telecommunications, value 7 for firms in the legal services sector, value 8 for manufacturing firms, value 9 for media, marketing and advertising firms, value 10 for medical and health services firms, value 11 for firms in a default category (other), value 12 for real-estate firms, value 13 for retail firms, and value 14 for firms in the transport and distribution sector.
- (c) *Regional location variable*: a categorical variable for the region in which the firm is located with value 1 for the East region, value 2 for the London area, value 3 for the Midlands, value 4 for the North region, value 5 for Scotland, value 6 for the South region, and value 7 for Wales.

## Findings

This survey revealed that 20% of the small business owners interviewed had traded in the informal economy when starting up their businesses. In other words, one in

five business owners started up their venture trading informally. This is an important finding. Not only is it one of the first estimates based on a relatively extensive database of the proportion of businesses that start up informally, but it also strongly suggests that any attempt to eradicate informal entrepreneurship through punitive measures, as is the conventional approach of tax administrations, will result in one hand of government seeking to eradicate precisely the entrepreneurship and enterprise culture that the other hand is seeking to foster (Williams and Renooy, 2013). Consequently, an approach is required to facilitate the formalization of informal entrepreneurship (OECD, 2012; Williams and Nadin, 2012a,b, 2013). To be successful, however, the policy measures to facilitate formalization need to tackle the main reasons for trading informally. Here, therefore, an attempt is made to identify these main reasons by asking small business owners why business ventures start up trading informally.

Table 1 reports the descriptive findings. Starting with all small business owners, this reveals that explanations associated with too much rather than too little state intervention are more commonly cited. Indeed, the three most commonly cited factors are high personal and business taxes (cited by 66.4%), burdensome red tape (47.9%) and personal gain (36%), all explanations grounded in a neo-liberal perspective of too much intervention. However, when the reasons given by the 119 small business owners who had traded informally during business start-up are analysed, a rather different picture emerges. This reveals that although the neo-liberal explanation of burdensome red tape (cited by 57.1%) is by far the most common reason, the remaining reasons are fairly evenly spread. It is less clear-cut,

therefore, when analysing the descriptive results for entrepreneurs who had traded informally, that it was always factors solely associated with too much state intervention that were their reason for trading informally.

Indeed, to analyse this further, we focus upon small business owners who traded informally and whether they explain their non-compliant behaviour purely in terms of too much or too little intervention or a mixture of the two. The finding is that 41% state that they participated purely due to reasons associated with too little state intervention, 35% for reasons solely associated with too much intervention and 24% for a mixture of both reasons.

Which small business owners who traded off-the-books when starting their venture, therefore, are more likely to explain their informal entrepreneurship in terms of too much intervention, and which in terms of too little intervention? To answer this, we now present the results of the multivariate multinomial logit model which investigates how socio-demographic, firm-level and regional location characteristics influence the opinions of small business owners regarding whether they participated in informal entrepreneurship as a result of too much or too little state intervention. In order to ease the presentation of the results, we present here only the findings associated with too much or too little intervention.

Table 2 reports the results for Model 1, in which only the influence of socio-demographic variables on the reasons for informality given by small business owners who traded off-the-books are analysed. This reveals that female small business owners and those currently taking a wide range of decisions in their business are

**Table 1. Small business owners' main reasons for informal entrepreneurship.**

Reasons	All small business owners (n = 595)		Small business owners who had started up off-the-books (n = 119)	
	N	%	N	%
<i>Overregulation:</i>				
High personal and business taxes	395	66.4	29	24.4
Burdensome red tape	285	47.9	68	57.1
Complexity of the benefit system	98	16.5	22	18.5
For personal gain	214	36.0	29	24.3
<i>Underregulation:</i>				
Lack of business advice and guidance from the government	81	13.6	26	21.8
Lack of financial assistance from the government and mainstream banks	132	22.2	33	27.7
Not knowing where or how to register a business	136	22.9	27	22.7
Other	37	6.2	10	8.4
Don't know	48	8.1	9	7.6
Not applicable: 'I was unaware that entrepreneurs trade informally'	43	7.2	4	3.4
A culture of tax avoidance created by high earners	163	27.4	20	16.8

Source: RSA Untapped Enterprise dataset, own calculations.

**Table 2. Small business owners' rationales for informal entrepreneurship: multinomial logit model of influence of socio-demographic characteristics.**

Variables	Model 1			
	Too much state intervention		Too little state intervention	
	<i>High taxes/ personal gain</i>	<i>Burdensome red tape/complexity of the benefit system</i>	<i>Lack of support from government/ mainstream banks</i>	<i>Not knowing where or how to register a business</i>
Female	<b>-0.540* (0.331)</b>	<b>-0.763* (0.462)</b>	-0.473 (0.374)	0.180 (0.278)
Age (RC: 18 to 34 years old):				
35 to 44	-0.508 (1.086)	-0.238 (1.112)	-1.355 (0.973)	<b>-1.696** (0.839)</b>
45 to 54	-0.105 (1.038)	-1.599 (1.117)	-1.391 (0.930)	<b>-1.616** (0.806)</b>
55+	-0.518 (1.025)	-1.293 (1.060)	-1.406 (0.901)	<b>-1.755** (0.791)</b>
Decision-making index	0.003 (0.016)	<b>-0.043* (0.023)</b>	-0.021 (0.020)	-0.001 (0.015)
Constant	0.095 (1.038)	0.467 (1.044)	0.964 (0.911)	1.567* (0.808)
N	119			
Pseudo R <sup>2</sup>	0.020			
Log likelihood	-1,077.814			
χ <sup>2</sup>	38.368			
p >	0.140			

Note: Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1  
 Source: RSA Untapped Enterprise dataset, own calculations.

significantly less likely to claim that too much intervention was the reason (that is, higher taxes and personal gain, plus burdensome red tape and the complexity of the benefits system). Put another way, men are more likely to adopt the neo-liberal explanation of too much intervention for their informal entrepreneurship, as are those who take only a narrow range of decisions with regard to their current business. Older owners of small businesses, meanwhile, are significantly less likely to explain their off-the-books trading in terms of too little intervention, specifically not being informed and knowledgeable about the fact that it is necessary to register a business. The suggestion, therefore, is that whilst men and those with wide-ranging decision-making responsibility in their business are significantly more likely to explain their informal trading from a neo-liberal perspective, it is younger people who are significantly more likely to adopt a political economy perspective.

Turning to how firm-level characteristics influence their explanation, Table 3 demonstrates that many of the findings, when solely socio-demographic characteristics were considered, remain relevant, even if they are somewhat weaker. Men remain significantly more likely to adopt a neo-liberal perspective, explaining their participation in the informal economy as being due to too much intervention (that is, higher taxes and personal gain, plus burdensome red tape and the complexity of the benefits system), whilst younger small business owners are more likely to adopt a political economy perspective, explaining their participation in terms of too little intervention, specifically not being informed and

knowledgeable about the fact that it is necessary to register a business. Similarly, full involvement in decision making in the business reduces the likelihood of stating that it is due to too much intervention.

Examining firm-level characteristics that influence the likelihood of small business owners who had traded informally citing neo-liberal explanations in the form of burdensome red tape and/or complexity of the benefits system, it is those with few employees and working in education, manufacturing, medical and health services and transportation and distribution who are less likely to do so. The political economy explanation of too little intervention, meanwhile, is more likely to be stated as a reason for trading informally by small business owners with three to nine employees and also those working in hospitality and leisure, media and real-estate sectors, and is significantly less likely to be cited by companies that now have high turnovers. Similarly, the argument of the political economy perspective that it is due to a lack of information on where and how to register a business is less likely to be cited as the reason for trading off-the-books initially by older small business owners and those with the highest turnover.

Finally, Table 4 reports the results for Model 3, which evaluates the influence of socio-demographic and firm-level characteristics once regional location is added into the model. Although the goodness of fit of this full specification does not improve much when compared with the specification used in Model 2, for the first time one can see the influence of regional location on whether small business owners' participation in informality is due to too much or too little intervention.

**Table 3. Small business owners' rationales for informal entrepreneurship: multinomial logit model of influence of socio-demographic and firm-level characteristics.**

Variables	Model 2			
	Too much state intervention		Too little state intervention	
	<i>High taxes/ personal gain</i>	<i>Burdensome red tape/complexity of the benefit system</i>	<i>Lack of support from government/ mainstream banks</i>	<i>Not knowing where or how to register a business</i>
Female	<b>-0.642' (0.345)</b>	-0.783 (0.517)	-0.598 (0.394)	-0.001 (0.302)
Age (RC: 18 to 34 years old):				
35 to 44	-0.689 (1.112)	-0.133 (1.075)	-1.257 (1.040)	<b>-1.588' (0.827)</b>
45 to 54	-0.226 (1.063)	-1.477 (1.119)	-1.410 (1.009)	<b>-1.548' (0.805)</b>
55+	-0.678 (1.048)	-1.063 (1.043)	-1.253 (0.992)	<b>-1.708'' (0.787)</b>
Decision-making index	0.002 (0.017)	<b>-0.048' (0.025)</b>	-0.024 (0.021)	-0.006 (0.016)
Number of employees (RC: No employees):				
2	0.142 (0.364)	<b>-1.085'' (0.539)</b>	0.463 (0.409)	-0.401 (0.344)
3 to 5	0.412 (0.457)	-0.113 (0.677)	<b>1.024' (0.542)</b>	0.279 (0.437)
6 to 9	0.770 (0.763)	1.044 (1.179)	<b>2.513''' (0.856)</b>	-0.168 (0.801)
10 to 49	-0.989 (0.810)	0.634 (1.012)	0.654 (1.204)	-0.229 (0.915)
Annual turnover (RC: Not reported)				
First year trading	-0.325 (1.186)	1.195 (1.136)	0.988 (1.090)	0.753 (0.935)
Less than £25,000	0.300 (0.463)	-0.420 (0.633)	-0.126 (0.512)	0.450 (0.429)
£25,000 to £49,999	-0.546 (0.516)	-0.300 (0.618)	-0.367 (0.535)	-0.109 (0.460)
£50,000 to £99,999	-0.292 (0.479)	0.249 (0.596)	-0.773 (0.533)	-0.114 (0.452)
£100,000 to £249,999	0.453 (0.498)	-0.029 (0.768)	-0.711 (0.606)	0.160 (0.486)
£250,000 to £499,999	0.175 (0.645)	-0.307 (1.097)	<b>-1.243' (0.753)</b>	0.526 (0.561)
£500,000 to £999,999	-1.642 (1.250)	-1.065 (1.731)	<b>-2.001'' (0.880)</b>	-0.506 (0.770)
£1m to £19.99m	1.261 (0.802)	0.401 (1.258)	-1.714 (1.227)	<b>-15.758''' (0.734)</b>
Industrial sector (RC: Accountancy)				
Construction	-0.798 (0.715)	-0.786 (0.872)	1.787 (1.148)	-0.328 (0.699)
Education	0.471 (0.841)	<b>-15.777''' (0.776)</b>	0.632 (1.536)	0.329 (0.829)
Financial services	0.245 (0.818)	-0.600 (1.236)	1.920 (1.311)	-0.196 (0.935)
Hospitality and leisure	0.785 (0.817)	0.583 (1.037)	<b>2.866'' (1.241)</b>	0.621 (0.865)
IT & telecoms	-0.008 (0.672)	-0.174 (0.808)	1.539 (1.144)	0.080 (0.688)
Legal	-0.316 (1.314)	0.074 (1.492)	1.735 (1.644)	0.975 (1.036)
Manufacturing	-0.574 (0.805)	<b>-16.089''' (0.759)</b>	1.614 (1.196)	0.327 (0.755)
Media/marketing/advertising/PR and sales	-0.204 (0.743)	-0.721 (0.912)	<b>2.048' (1.173)</b>	0.173 (0.720)
Medical & health services	-0.726 (1.261)	<b>-15.449''' (0.959)</b>	<b>2.860'' (1.363)</b>	1.319 (0.923)
Other	-0.326 (0.629)	-0.516 (0.752)	0.827 (1.148)	-0.331 (0.654)
Real estate	-0.989 (0.959)	-0.325 (1.069)	<b>2.360' (1.294)</b>	0.531 (0.804)
Retail	0.135 (0.697)	0.020 (0.833)	1.320 (1.223)	0.674 (0.685)
Transportation & distribution	<b>-17.118''' (0.771)</b>	<b>-16.979''' (1.064)</b>	1.112 (1.610)	0.463 (1.064)
Constant	0.313 (1.192)	1.049 (1.249)	-0.727 (1.463)	1.392 (1.001)
N	119			
Pseudo R <sup>2</sup>	0.101			
Log likelihood	-988.087			
χ <sup>2</sup>	26,947.782			
p >	0.000			

Note: Robust standard errors in parentheses. '''p < 0.01, ''p < 0.05, 'p < 0.1.

The finding is that entrepreneurs whose venture is located in the London area are less likely to adopt the political economy perspective and to argue that not knowing how or where to register the business was the main reason for their off-the-books trading. The introduction of this contextual-level information does not alter significantly the influence of the socio-demographic and firm-level characteristics already discussed in Models 1 and 2 above.

### Conclusions

This paper has evaluated whether small business owners view their informality during business start-up

to be a result of too much or too little intervention. The reason this is important is because these two explanations result in very different policy approaches for tackling entrepreneurship in the informal economy. If informal entrepreneurship is due to too much intervention, then policies are required that will change the cost/benefit ratio confronting such business start-ups, which might include reducing the level of taxation, the burdensome red tape that stifles small businesses and the complexity of the benefits system that leads people to start up informally due to the problems of doing so formally. If, on the other hand, informal entrepreneurship is a result of a lack of intervention, then the policy approach

**Table 4. Small business owners' rationales for informal entrepreneurship: multinomial logit model of influence of socio-demographic, firm-level and regional location characteristics.**

Variables	Model 3			
	Too much state intervention		Too little state intervention	
	<i>High taxes/ personal gain</i>	<i>Burdensome red tape/complexity of the benefit system</i>	<i>Lack of support from government/ mainstream banks</i>	<i>Not knowing where or how to register a business</i>
Female	<b>-0.634*</b> (0.353)	<b>-0.861*</b> (0.522)	-0.624 (0.413)	0.038 (0.307)
Age (RC: 18 to 34 years old):				
35 to 44	-0.700 (1.116)	-0.183 (1.107)	-1.335 (1.097)	<b>-1.750**</b> (0.812)
45 to 54	-0.248 (1.067)	-1.503 (1.139)	-1.491 (1.062)	<b>-1.681**</b> (0.792)
55+	-0.740 (1.049)	-1.133 (1.064)	-1.306 (1.043)	<b>-1.867**</b> (0.772)
Decision-making index	-0.001 (0.017)	<b>-0.047*</b> (0.025)	-0.028 (0.021)	-0.010 (0.017)
Number of employees (RC: No employees):				
2	0.163 (0.366)	<b>-1.052*</b> (0.551)	0.407 (0.414)	-0.425 (0.351)
3 to 5	0.452 (0.465)	-0.163 (0.668)	<b>1.010*</b> (0.554)	0.356 (0.451)
6 to 9	0.740 (0.769)	1.036 (1.218)	<b>2.694***</b> (0.884)	-0.241 (0.812)
10 to 49	-1.078 (0.827)	0.625 (1.071)	0.425 (1.230)	-0.225 (0.871)
Annual turnover (RC: Not reported)				
First year of trading	-0.370 (1.212)	1.201 (1.167)	0.991 (1.150)	0.765 (0.968)
Less than £25,000	0.288 (0.467)	-0.456 (0.634)	-0.205 (0.523)	0.469 (0.443)
£25,000 to £49,999	-0.580 (0.513)	-0.336 (0.623)	-0.409 (0.548)	-0.108 (0.473)
£50,000 to £99,999	-0.366 (0.486)	0.218 (0.633)	-0.705 (0.548)	-0.124 (0.462)
£100,000 to £249,999	0.380 (0.502)	-0.011 (0.767)	-0.690 (0.599)	0.117 (0.498)
£250,000 to £499,999	0.057 (0.663)	-0.247 (1.090)	-1.086 (0.780)	0.465 (0.576)
£500,000 to £999,999	-1.462 (1.284)	-0.994 (1.747)	<b>-1.927**</b> (0.921)	-0.494 (0.813)
£1 million to £19.99 million	1.365 (0.836)	0.323 (1.328)	-1.765 (1.119)	<b>-16.365***</b> (0.745)
Industrial sector (RC: Accountancy)				
Construction	-0.751 (0.744)	-0.720 (0.893)	1.944 (1.209)	-0.265 (0.714)
Education	0.409 (0.875)	<b>-16.285***</b> (0.840)	0.908 (1.569)	0.173 (0.837)
Financial services	0.285 (0.848)	-0.543 (1.247)	2.128 (1.360)	-0.219 (0.983)
Hospitality and leisure	0.764 (0.850)	0.598 (1.059)	<b>2.735**</b> (1.275)	0.575 (0.885)
IT & telecoms	0.033 (0.696)	-0.127 (0.815)	1.538 (1.180)	0.021 (0.704)
Legal	-0.210 (1.310)	0.084 (1.537)	1.808 (1.722)	1.091 (1.044)
Manufacturing	-0.426 (0.818)	<b>-16.620***</b> (0.785)	1.676 (1.230)	0.345 (0.762)
Media/marketing/advertising/PR and sales	-0.090 (0.784)	-0.714 (0.942)	<b>2.126*</b> (1.231)	0.286 (0.744)
Medical & health services	-0.782 (1.261)	<b>-15.992***</b> (0.989)	<b>2.910**</b> (1.388)	1.273 (0.950)
Other	-0.267 (0.659)	-0.463 (0.787)	0.797 (1.184)	-0.332 (0.664)
Real estate	-0.896 (0.981)	-0.288 (1.088)	<b>2.562*</b> (1.340)	0.548 (0.807)
Retail	0.149 (0.717)	0.077 (0.855)	1.395 (1.246)	0.592 (0.698)
Transportation & distribution	<b>-17.700***</b> (0.802)	<b>-17.506***</b> (1.118)	1.303 (1.695)	0.363 (1.093)
Region (RC: East)				
London	-0.414 (0.597)	0.265 (0.849)	-0.401 (0.780)	<b>-1.101*</b> (0.605)
Midlands	-0.936 (0.620)	-0.084 (0.797)	0.338 (0.673)	-0.148 (0.518)
North	0.073 (0.515)	0.049 (0.778)	-0.678 (0.716)	-0.032 (0.488)
Scotland	-0.225 (0.693)	-0.204 (0.942)	0.696 (0.751)	-0.699 (0.717)
South	-0.211 (0.479)	0.031 (0.721)	-0.184 (0.630)	0.061 (0.449)
Wales	0.233 (0.811)	0.849 (1.058)	1.411 (0.885)	0.049 (0.782)
Constant	0.580 (1.290)	1.000 (1.481)	-0.690 (1.563)	1.728* (1.044)
N	119			
Pseudo R <sup>2</sup>	0.119			
Log likelihood	-969.206			
χ <sup>2</sup>	28,664.363			
p >	0.000			

Note: Robust standard errors in parentheses. \*\*\*p < 0.01, \*\*p < 0.05, \*p < 0.1.

required is different, with more support required by government in terms of providing better information about how and where to register a business; better education about what is required in order to establish a formal business and what benefits result from doing so; more help in facilitating business formalization; and better access to finance from mainstream banks to enable them to do so.

On questioning UK small business owners who had established their enterprise and traded informally with regard to their reasons for doing so, 41% stated that this was due to a lack of state intervention (political economy perspective), 35% due to too much intervention (a neo-liberal perspective) and 24% due to a mixture of the two. However, their rationales for trading informally when they started out vary significantly

according to various socio-demographic, firm-level and regional location characteristics. Examining the significant variations, we found that when controlling for socio-demographic, firm-level and regional location factors, the neo-liberal perspective was more likely to be held by men and less likely to be cited by those heavily involved in taking wide-ranging decisions in their current business, with one or two employees and working in education, manufacturing, medical and health services and transportation and distribution. Nearly all of these sectors, interestingly, involve high levels of regulation (for example, education, medical and health services, transportation and distribution), suggesting that the owners view the regulations that apply in these sectors as appropriate and not the reason for their informality.

Small business owners whose rationales for trading informally when they started out are grounded more in the political economy perspective of a lack of state intervention, meanwhile, are younger owners of small businesses, with three to nine employees and working in the hospitality and leisure industry, the media, marketing and sales sector, medical and health services and real estate. Again, this is perhaps unsurprising since these sectors are precisely the ones which previous studies have revealed have high concentrations of informality in them (Williams, 2006). Those significantly less likely to advocate that it is due to a lack of state intervention, meanwhile, are those small business owners with turnovers over £0.5 million and located in London.

It is clear, therefore, that if these findings were used to develop policy measures to target the different causes of informality across different groups of small business owners, then greater advice and support during start-up would be targeted at younger entrepreneurs in the hospitality and leisure industry, the media, marketing and sales sector, medical and health services and real estate. This survey, however, which resulted in the rationales of just 119 small business owners being analysed who had started trading off-the-books cannot be used to develop policy measures. More extensive research is required before drawing any firmer conclusions about who starts up informally for which reasons and what therefore needs to be done to tackle business start-ups in the informal economy. Hopefully, however, this paper has displayed the benefits of conducting such research, since it has shown how a more targeted policy approach might be pursued if there were greater understanding of the rationales for small business owners' start-ups trading informally.

In sum, this paper has evaluated critically the competing perspectives regarding whether entrepreneurs' participation in the informal economy is due to too much or too little state intervention. It has revealed that

it is not one or the other which is universally valid, but rather that a nuanced, context-bound understanding of informal entrepreneurs' rationales is required which recognizes how this varies across various socio-demographic, firm-level and regional populations. This strongly indicates, moreover, that a nuanced and context-bound policy approach will also be required, both when targeting policy measures to provide advice and support to business start-ups to ensure that they do not trade informally and to help them make the transition to formality, and when targeting groups in which a simplification of compliance is the way forward. If this paper thus stimulates further research on this issue and greater consideration of how different policy measures might be targeted at different groups of small business owners, then it will have fulfilled its objective.

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