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EVALUATING ENTREPRENEURS' MOTIVES FOR PARTICIPATING IN THE INFORMAL SECTOR IN EUROPE

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Informal entrepreneurs have been viewed variously as reluctant participants in such endeavors doing so out of economic necessity because of their exclusion from formal work and welfare (structuralist theory), or as willing entrepreneurs who voluntarily exit the formal economy either as a rational economic decision (neo-liberal theory) or as social actors who do not agree with the formal rules and regulations of the state (neo-institutional theory). The aim of this paper is to evaluate these competing theorizations of entrepreneurs' motives for participating in the informal sector. Reporting evidence from a 2019 Eurobarometer survey involving 27,565 face-to-face interviews in 28 European countries, the finding is that five percent are reluctant participants, twenty percent are willing participants doing so as a rational economic decision, 21 percent are willing participants doing so because of their disagreement with the rules and 54 percent do so for a mixture of these motives. A logistic regression analysis reveals who is more likely to engage in informal entrepreneurship and who is significantly more likely to do so for each motive. The theoretical and policy implications are then discussed.

Keywords: Informal economy; entrepreneurship; informal sector entrepreneurship; enterprise culture; tax evasion; Europe.

1. Introduction

Given that 86.1 percent of all own-account workers worldwide are in the informal economy (ILO, 2018), a new sub-discipline of entrepreneurship has emerged that studies entrepreneurship in the informal sector (Alnahedh and Alsanousi, 2020; Deb *et al.*, 2020; Karki and Xheneti, 2018; Lin, 2018; Mannila and Eremicheva, 2018; Ogando *et al.*, 2017; Petersen and Charman, 2018; Ram *et al.*, 2017; Ullah *et al.*, 2019; Williams and Laden, 2019; Williams *et al.*, 2020). Informal sector entrepreneurs are defined here as those working on an own-account basis who do not declare all their paid activities to the authorities for tax, social security and/or labor law purposes (Chepureenko, 2018; Ketchen *et al.*, 2014; Siqueira *et al.*, 2016; Williams, 2017; Williams and Martinez-Perez, 2014a, b; Williams and Shahid, 2015; Williams *et al.*, 2015, 2017). Given the commonality with which entrepreneurs operate in the informal sector, this has become a priority issue not only for supra-national institutions (ILO, 2015, 2018; European Commission, 2016; OECD, 2017; World Bank, 2019) but also national governments (Williams, 2019).

The aim of this paper is to contribute to the literature on informal entrepreneurship by advancing understanding of entrepreneurs' motives for participating in the informal sector. This is important because unless their motives are understood, policy measures cannot be developed that address their reasons for engaging in such endeavors. Until now, there have been three competing theorizations of their motives for engaging in informal entrepreneurship. Structuralist theory has conceptualized informal entrepreneurs as reluctant participants in such work doing so out of economic necessity because of their exclusion from formal work and welfare (Davis, 2006; Gallin, 2001; Taiwo, 2013), while two other theories view them as willing entrepreneurs who voluntarily "exit" the formal economy, with neo-liberals depicting this as a rational economic decision (De Soto, 1989, 2001; Maloney, 2004; Perry and Maloney, 2007) and neo-institutional theorists representing them more as social actors who do not agree with the formal rules and regulations of the state (Cross, 2000; Gerxhani, 2004; Snyder, 2004).

To advance understanding of entrepreneurs' motives for participating in the informal sector, the next section reviews these competing theoretical perspectives on their motives. To evaluate these theories, the third section then introduces the data and methods used, namely a logistic regression analysis of special Eurobarometer survey 92.1 involving 27,565 interviews undertaken in 28 European countries in September 2019. The fourth section reports the findings on who engages in informal entrepreneurship, their motives for doing so and who is significantly more likely to do so for each motive in Europe. The fifth and final section then draws conclusions and discusses the theoretical and policy implications.

2. Entrepreneurs' Motives for Participating in the Informal Sector: Contrasting Theories

Until now, scholarship on informal entrepreneurship has analyzed its prevalence (Autio and Fu, 2015; ILO, 2018, 2020; Williams, 2017; Williams *et al.*, 2012, 2017a), the structural conditions significantly associated with its greater prevalence in some countries than in others (Dau and Cuervo-Cazurra, 2014; Siqueira *et al.*, 2014; Thai and Turkina, 2014), the impacts of starting-up unregistered on future firm performance (Ullah *et al.*, 2019; Williams and Kedir, 2016, 2017; Williams and Kosta, 2019, 2020a, b), the impacts of informal sector competition on formal enterprises (Williams and Liu, 2019; Williams and Kosta, 2019, 2020a) and who engages informal sector entrepreneurship (Webb *et al.*, 2009, 2013; Williams and Gashi, 2020).

There is also a burgeoning literature that seeks to understand entrepreneurs' motives for participating in the informal sector both in the global South (Coletto and Bisschop, 2017; Cross, 2000; De Castro *et al.*, 2014; Fajnzylber *et al.*, 2009; Franck., 2012; Gurtoo and Williams, 2009; Ilyas *et al.*, 2020; Khan and Quaddus, 2015; Kistruck *et al.*, 2015; La Porta and Shleifer, 2008; London *et al.*, 2014; McKenzie and Woodruff, 2016; Omri, 2020; Sutter *et al.*, 2013; Williams and Gurtoo, 2012, 2017) and global North (Barbour and Llanes, 2013; Horodnic and Williams, 2019; Small Business Council, 2004; Webb *et al.*, 2009, 2013, 2014; Williams, 2006, 2009; Williams *et al.*, 2011). The vast majority of this

scholarship has viewed entrepreneurs participating in the informal sector in a binary manner either as “reluctant” (or “necessity-driven”) entrepreneurs pushed into such endeavor as a survival tactic in the absence of other means of livelihood, or as “willing” entrepreneurs doing so more out of choice. Here, this scholarship on entrepreneurs' motives for participating in the informal sector is reviewed.

2.1. Reluctant participants in informal entrepreneurship: Structuralist theory

The long-standing dominant view, especially in the global South, has been that entrepreneurs participating in the informal sector are reluctant participants pushed into such endeavors out of necessity (Davis, 2006; Gallin, 2001; ILO, 2018; Taiwo, 2013). This view primarily derives from structuralist scholarship. On the one hand, this portrays informal sector entrepreneurship to directly result from an increasingly de-regulated global economy in which employers seek to reduce their costs by sub-contracting production to the informal sector, such as to people who might have been former employees but who now engage in own-account work with little or no social protection (Fernandez-Kelly, 2006; Gallin, 2001; Portes, 1994; Portes and Haller, 2004; Portes and Roberts, 2005; Sassen, 1997; Slavnic, 2010). Therefore, these commentators view informal sector entrepreneurs as akin to “downgraded labor” receiving few benefits, low pay and with poor working conditions (Castells and Portes, 1989; Gallin, 2001; ILO, 2002; Portes, 1994; Sassen, 1997).

On the other hand, structuralists view informal entrepreneurs as surplus labor “excluded” from formal work and welfare who participate in this endeavor as a survival tactic in the absence of any other means of livelihood. Read through this lens, informal entrepreneurship is an absorber of surplus labor and provider of income earning opportunities for the poor at the “bottom of the pyramid” (Bhatt, 2006; Tokman, 2001). Consequently, informal entrepreneurship is extensive in excluded populations where the formal economy is weak because its role is to act as a substitute. It is undertaken by those involuntarily decanted into this realm and conducted by marginalized populations (Castells and Portes, 1989; Sassen, 1997).

2.2. Willing participants in informal entrepreneurship: Neo-liberal theory

In stark contrast to structuralist theorists, other scholars argue that informal entrepreneurship results from a decision to voluntarily “exit” the formal sector, rather than a result of their involuntary exclusion from the formal sector (Cross, 2000; Gerxhani, 2004; Maloney, 2004; Snyder, 2004). For a group of neo-liberal scholars, this voluntary decision to participate in informal entrepreneurship and exit the formal sector is a rational economic decision taken when the benefits of operating informally are greater than the costs of doing so (Maloney, 2004; Perry and Maloney, 2007).

For such neo-liberals, over-regulation of the market is to blame for the growth of informal sector entrepreneurship (De Soto 1989, 2001). As one of the primary exponents of the view states, “the real problem is not so much informality as formality” (De Soto, 1989). Therefore, from this perspective, entrepreneurs voluntarily operate in the informal

sector to evade the substantial costs, time and effort associated with formal registration and as a preferred option to the formal sector (Cross, 2000; De Soto, 1989, 2001; Perry and Maloney, 2007; Small Business Council, 2004). Informal entrepreneurship is seen as a populist rational economic response when the population has its spirit stifled. For these neo-liberal scholars, this is because of economic problems with operating in the formal economy, such as complex registration systems, high tax levels, corrupt public officials extracting bribes and burdensome regulations (De Soto, 1989, 2001; Maloney, 2004; Perry and Maloney, 2007). In short, informal entrepreneurship is a response to the over-regulation of the economy and its prevalence is viewed as evidence of the rise of opposition to state regulation.

From this neo-liberal perspective, informal entrepreneurship is a voluntary endeavor and a rational economic decision motivated by complicated bureaucracy or red tape for both regular and occasional economic activity, and taxes and/or social security contributions that are too high. It is an escape strategy from the perceived burdensome regulations of the declared economy.

2.3. *Willing participants in informal entrepreneurship: Neo-institutional theory*

Another group of scholars again viewing participants in informal entrepreneurship as voluntarily doing so are a group of neo-institutionalist scholars (Godfrey, 2015; Godfrey and Dyer, 2015; Webb *et al.*, 2009, 2013, 2020; Williams, 2017; Williams and Kosta, 2019; Williams and Krasniqi, 2019; Williams *et al.*, 2017a). For these scholars, institutions are the rules of the game that govern behavior. All societies have formal institutions that are the legal rules of the game (i.e., the laws and regulations) and informal institutions that are the unwritten socially shared rules of the game (Helmke and Levitsky, 2004), which are the norms, values and beliefs of citizens and entrepreneurs regarding what is acceptable behavior (Denzau and North, 1994).

These neo-institutionalist scholars view informal entrepreneurship as being an illegal endeavor from the viewpoint of the formal institutions but socially legitimate in terms of the informal institutions. Consequently, informal entrepreneurship is argued to emerge when formal institutional failings produce an asymmetry between the laws and regulations of a society's formal institutions and the norms, values and beliefs of the population (Horodnic, 2018; Siqueira *et al.*, 2016; Webb *et al.*, 2009; Williams and Horodnic, 2015). Indeed, the greater the degree of asymmetry between the formal and informal rules, the more prevalent is informal entrepreneurship (Williams and Shahid, 2015).

Therefore, from this neo-institutionalist perspective, informal entrepreneurship is again portrayed as voluntary endeavor but engaged in by social actors whose values, norms and beliefs do not align with the laws and regulations on what is acceptable and legitimate. For example, they might view intentionally not declaring small secondary income from entrepreneurial endeavor as perfectly acceptable, might view informality as a common practice and part of the accepted culture in their industry or region, or an accepted and common practice in their community among friends, neighbors or acquaintances.

2.4. *Synthesizing the theories*

Until now, most scholars have portrayed informal entrepreneurs' motives as embedded within one or other of these theoretical "logics" (De Soto, 2001; Snyder, 2004). However, a small tributary of scholarship on informal entrepreneurship has sought to transcend such crude portrayals of informal entrepreneurs as either universally reluctant participants or universally willing participants. As a seminal text in this regard asserted, "These two lenses, focusing, respectively, on informality driven by exclusion from state benefits and on voluntary exit decisions resulting from private cost-benefit calculations, are complementary rather than competing analytical frameworks" (Perry and Maloney, 2007).

One of the first scholars to recognize that informal entrepreneurs are not either universally reluctant or willing entrepreneurs was Lozano (1989) who interviewed 50 dealers at flea markets in Northern California. She identified those who had voluntarily become traders in these flea markets, who had decided to leave their job to do so or who were engaging in this entrepreneurial endeavor to generate additional income beyond what was needed to cover their normal living expenses and levels of indebtedness. One-fifth of participants she studied were in this voluntary category. Meanwhile, she also identified involuntary traders, which occurred when: a person had lost their formal job; their income from employment, pensions or welfare payments was inadequate to cover their normal living expenses and levels of indebtedness; or a trader had left full-time education and turned to the flea markets after being unsuccessful in finding work in the formal economy. The remaining 80 percent of dealers explained their decision to operate as dealers in the flea market in this involuntary manner.

Numerous studies have since evaluated this balance between reluctant and willing entry into the informal economy. These reveal some distinct differences across global regions. Although most studies in the global South reveal that informality is primarily driven by exclusion and is involuntary (e.g., ILO, 2018; Adom and Williams, 2012; Shahid *et al.*, 2020; Williams *et al.*, 2017), most studies conducted in the global North display that informality is primarily driven by a voluntary decision to exit the formal economy (Williams, 2006). However, most of these studies are on the informal economy in general, including waged employment, rather than informal entrepreneurship. Yet other studies seek an even richer and more textured understanding of the motives for participation in the informal economy by replacing such either/or thinking by a both/and approach which portrays how many participants cite a mixture of motives (Williams and Yousseff, 2016).

Indeed, an examination of data from the 2013 Eurobarometer survey on European countries reveals that 24 percent of all informal workers are purely exclusion driven, 45 percent purely exit driven and 31 percent display mixed reasons, and has identified the groups most likely to engage in each type of work. Using a logistic regression analysis, the structuralist exclusion-driven explanation is identified as significantly more likely to be stated by the unemployed and those living in East-Central Europe and exit-driven explanations by those with few financial difficulties and living in Nordic nations (Williams *et al.*, 2017b).

No studies have evaluated more contemporary data, evaluated these three competing theories in relation to informal entrepreneurs' motives (rather than all workers in the informal economy), or identified the characteristics of informal entrepreneurs who do so for each of these explanations.

Consequently, new contemporary data will be evaluated here to understand first, who engages in informal entrepreneurship; second, informal entrepreneurs' motives and third, the characteristics of the informal entrepreneurs doing so for different motives.

3. Methodology

To evaluate who engages in informal entrepreneurship and evaluate the competing explanations for why they do so, as well as the characteristics of those citing each explanation, data is reported from Eurobarometer special survey 92.1 undertaken in September 2019. This involved 27,565 interviews conducted in 28 European countries (the 27 European Union member states and the UK) with adults aged fifteen years and older in the national language.

The number of interviews varied from 500 in smaller countries to 1,500 in larger nations. A multi-stage random (probability) sampling method was used. To collect a representative sample, sampling points were drawn with probability proportional to population size (for total coverage of the country), population density according to the Eurostats NUTS II (or equivalent) and the distribution of the resident population in terms of metropolitan, urban and rural areas. In each selected sampling unit, a starting address was drawn at random and then further addresses using a standard "random route" procedure. For each household, the respondent was selected using the "closest birthday rule." All interviews were conducted face-to-face in the national language. For data collation, CAPI (computer assisted personal interview) was used.

To analyze first, who engages in informal entrepreneurship, second, their motives and third, the individual characteristics of those doing so for different motives. the following dependent variables are analyzed.

- *Informal entrepreneurship*: a dummy variable with value 1 for participants who answered "yes" to the question "have you yourself carried out any undeclared paid activities in the last 12 months?," and then answered the question of "Would you describe your undeclared paid activities as ..." with the answer "undertaken on your own account," and value 0 otherwise (e.g., they did not engage in the informal economy or stated that their informal work was waged employment for an employer, or refused to answer).
- *Structuralist motives*: a dichotomous variable recorded value 1 for those who reported one or more of the following "involuntary" motives (i.e., the person who acquired it insisted on the non-declaration; you could not find a regular job; it is difficult to live on social welfare benefits; you would lose your social welfare benefits if you declared it; you have no other means of income) and no "voluntary" motives, and recorded value 0 otherwise.
- *Neo-liberal motives*: a dichotomous variable recorded value 1 for those who reported one or more of the following "voluntary" motives (i.e., bureaucracy or red tape for a regular economic activity is too complicated; bureaucracy or red tape for minor or occasional

activities is too complicated; you were able to ask for a higher fee for your work; both parties benefited from it; taxes and/or social security contributions are too high; it was not clear whether the work needed to be declared) and none of the “involuntary” motives or the other neo-institutionalist “voluntary” motives, and recorded value 0 otherwise.

- *Neo-institutionalist motives*: a dichotomous variable recorded value 1 for those who reported one or more of the following “voluntary” motives (i.e., believe that intentionally not declaring small secondary income is perfectly acceptable; this is common practice in my region or sector; this is a common practice among friends, neighbors or relatives; the state does not do anything for me, so why should I pay taxes) and none of the “involuntary” motives or the other neo-liberal “voluntary” motives, and recorded value 0 otherwise.
- *“Mixed” motives*: a dichotomous variable recorded value 1 for persons who reported motives from any two sets of either neo-institutionalist “voluntary” motives, neo-liberal “voluntary” motives or structuralist “involuntary” motives, and recorded value 0 otherwise.

Mirroring analyses of previous Eurobarometer surveys of the informal economy conducted in 2007 and 2013 (Williams and Horodnic, 2017a, 2018), the other control variables here included cover a range of socio-demographic, socio-economic and spatial variables (see Table 1).

Table 1. Control variables used in the analysis: definitions

Variables	Definition
Gender	A dummy variable with value 0 for females and 1 for males
Age	A categorical variable indicating the age of a respondent with value 1 for fifteen to twenty-four years, value 2 for twenty-five to thirty-nine years, value 3 for forty to fifty-four years, and value 4 for fifty-five years and older.
Marital status	A categorical variable grouping respondent by their marital status with value 1 for (re)married, value 2 for single living with a partner, value 3 for single, value 4 for divorced/separated, value 5 for widow
Employment status	A categorical variable grouping respondents by their employment status with value 1 for self-employed, value 2 employed for and value 3 for not working persons.
People 15+ years in own household	A categorical variable for people 15+ years in respondent's household (including the respondent) with value 1 for one person, value 2 for two persons, value 3 for 3 persons or more
Children	A dummy variable for the presence of children up to 14 years old in the household with value 0 for individuals with no children and value 1 for those having children
Financial difficulties	A categorical variable for the respondent difficulties in paying bills with value 1 for having difficulties most of the time, value 2 for occasionally, and value 3 for almost never/ never
Urban/rural area	A categorical variable for the area where the respondent lives with value 1 for rural area or village, value 2 for small or middle-sized town, and value 3 for large town
European Region	A categorical variable for the region where the respondent lives with value 1 for East-Central Europe (Bulgaria, Croatia, Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Romania, Slovenia, Slovakia), value 2 for Western Europe (UK, Northern Ireland, Belgium, Germany, France, Ireland, Luxembourg, Netherlands, Austria), value 3 for Southern Europe (Cyprus, Greece, Spain, Italy, Malta, Portugal) and value 4 for Nordic nations (Denmark, Finland, Sweden).

To analyze the data, logistic regression is used. This is because logistic regression analysis is used for testing hypotheses about relationships between a categorical dependent variable and one or more categorical or continuous independent variables. The dependent variable in logistic regression is binary.

Logistic regression predicts the logit of Y to X because the logit is the natural logarithm (ln) of odds of Y, and the odds are the ratios of probabilities (p) of Y happening to probabilities (1 – p) of Y not happening. In analysis, logit command is used to run logistic regression instead of logistic command. This is because logit displays the coefficients instead of odds ratios. We fit the following model:

$$\Pr(y_j \neq 0 | x_j) = \frac{\exp(x_j\beta)}{1 + \exp(x_j\beta)}$$

The maximum likelihood method is used for estimating the least squares function (Greene, 2018; Cameron and Trivedi, 2010). The log-likelihood function for logit is

$$\ln L = \sum_{j \in S} \omega_j \ln F(x_j\beta) + \sum_{j \notin S} \omega_j \ln \{1 - F(x_j\beta)\}$$

where S is the set of all observations, j, such that $y_j \neq 0$, $F(z) = \frac{e^z}{1+e^z}$ ω_j denotes the optional weights. lnL is maximized. The dependent variable of the model (y_j) is a latent variable, which in the first case represents informal entrepreneurship (and in the latter cases represents each of the sets of motives).

4. Findings

This 2019 Eurobarometer survey finds that 2.05 percent (1 in every 49) of the representative sample of European citizens surveyed had operated as informal entrepreneurs in the twelve months prior to the interview. Table 2 reports the descriptive statistics on who engages in informal entrepreneurship in Europe, their motives and the characteristics of those citing each motive.

Starting with who engages in informal entrepreneurship, it reveals that men are over-represented, as are younger age groups, and single people, those in single adult households, and those who have children. They are also more likely to be self-employed and less likely to be not working, and to have difficulty paying the household bills most of the time or from time-to-time. They are also more likely to live in rural areas or a village than in more urban environments, and informal entrepreneurs are over-represented in Western Europe and the Nordic nations.

Examining the descriptive statistics on their motives for participating in informal entrepreneurship, Table 2 reveals that across all 28 European countries, just five percent were reluctant participants expressing purely reasons associated with their exclusion from the formal economy, twenty percent were willing participants expressing purely motives associated with it being a rational economic decision, 21 percent were willing participants

expressing motives associated with it purely being because of their disagreement with the rules and 54 percent expressed a mixture of all these motives. These descriptive findings provide tentative evidence that using only one theory to explain the motives of entrepreneurs for participating in the informal sector will provide only a partial explanation of a small cohort of informal entrepreneurs.

It is also important to recognize the characteristics of those citing each motive. Involuntary motives are more likely to be stated by informal entrepreneurs who are men, younger informal entrepreneurs, those who are single, not in employment, living in single person households, have difficulties paying the bills most of the time, living in rural areas or a village and in East-Central Europe. Voluntary motives associated with it being a rational economic decision are more likely to be stated by informal entrepreneurs who are women, middle-aged groups, single living with a partner, employed, in households with two adults, with children, who almost never/never have difficulties paying the bills, live in rural areas or villages or small or middle-sized towns, and in Western Europe. Voluntary motives associated with disagreement with the rules are more likely to be stated by informal entrepreneurs who are younger, (re)married or single, the employed, in three or more adult households, with no children, almost never/never have difficulties paying the bills, and live in Western Europe and Nordic nations. Meanwhile, mixed motives are more likely to be stated by informal entrepreneurs who are middle-aged, divorced/separated, self-employed, more frequently have difficulties paying the bills, live in larger urban areas and in East-Central and Southern Europe.

Table 2. Descriptive statistics of engagement in informal entrepreneurship and motives

	% engaged in informal entrepreneurship	% of all EU citizens surveyed	Reasons for engaging in informal entrepreneurship (%)			
			Solely involuntary	Solely voluntary rational economic actor	Solely voluntary social actor	Mixed
<i>All</i>	2.06	100.0	5	20	21	54
Gender (%)						
Female	43	53	33	45	44	44
Male	57	47	67	55	56	56
Age						
15-24	14	8	19	15	20	10
25-39	32	20	33	26	37	33
40-54	28	25	19	36	18	31
55+	26	47	29	23	25	26
Marital Status (%)						
Re(Married)	40	53	24	39	44	40
Single living with partner	20	12	14	23	17	21
Single	25	17	38	22	35	21
Divorced/Separated	10	8	14	7	2	14
Widow	4	9	10	6	1	4
Other	1	1	-	3	1	-
Occupation						
Self employed	15	8	5	11	14	17

Table 2 (continued). Descriptive statistics of engagement in informal entrepreneurship and motives

	% engaged in informal entrepreneurship	% of all EU citizens surveyed	Reasons for engaging in informal entrepreneurship (%)			
			Solely involuntary	Solely voluntary rational economic actor	Solely voluntary social actor	Mixed
Self employed	15	8	5	11	14	17
Employed	40	44	28	45	44	39
Not working	45	48	67	44	42	44
People 15+ years in own household						
One	28	24	52	24	24	29
Two	46	51	29	55	43	46
Three and More	26	25	19	21	33	25
Children (%)						
No children	71	76	76	61	74	71
Have children	29	24	24	39	26	29
Difficulties paying bills (%)						
Most of the time	17	7	28	12	7	22
From time to time	27	23	24	22	30	29
Almost never/never	56	70	48	66	63	49
Area (%)						
Rural area or village	38	33	43	41	38	36
Small or middle-size town	39	38	43	43	39	39
Large town	23	29	14	16	23	25
Region						
East-Central	35	37	48	26	33	39
Western	35	32	38	43	38	32
Southern	12	18	14	11	10	14
Nordic	17	13	-	20	19	15

Source: 2019 Eurobarometer 92.1 survey

To evaluate whether these descriptive findings on the characteristics of those who engage in informal entrepreneurship and the characteristics of those citing each motive remain the same when other variables are introduced and held constant, a logistic regression analysis is reported in Table 3. This measures first who is significantly more likely to engage in informal entrepreneurship and the characteristics of those citing each motive.

Starting with who is statistically significantly more likely to participate in informal entrepreneurship, the finding is that there are no statistically significant differences by gender. However, younger people aged 15-24 years old are significantly more likely than older age groups to engage in informal entrepreneurship. Meanwhile, those who are divorced or separated are significantly less likely than those who are (re-)married to engage in informal entrepreneurship, as are those who are formally employed significantly less likely to engage in informal entrepreneurship than those who report themselves as not working. It is also the case that single adult households are significantly more likely than

multiple adult households to engage in informal entrepreneurship. However, the presence or not of children is not significantly associated with participation. Neither is whether the household has financial difficulties in paying the bills more often significantly associated with participation in informal entrepreneurship. However, informal entrepreneurship is significantly more likely to be undertaken by those in rural areas or a village than those in more urban environments. There are no significant differences between European regions.

Turning to who reluctantly engages in informal entrepreneurship on an involuntary basis out of economic necessity, as proposed by the structuralist perspective, the finding is that this is significantly more likely among single person households. No other characteristics are significantly associated with this motive. Examining those explaining their informal entrepreneurship solely as a voluntary rational economic decision and based on the economic benefits involved (reflecting the neo-liberal explanation) are significantly more likely to live in single person households, but also to have no children and live in rural areas or a village than in a large urban area. They are also significantly more likely to live in Western Europe.

Those who are significantly more likely to explain their informal entrepreneurship as a voluntary decision based on social reasons (e.g., related to discontent with the state) are those who never/almost never or only from time-to-time have difficulties paying the bills, suggesting that financial difficulty is not a motivating factor for these informal entrepreneurs.

Finally, those who are significantly more likely to explain their informal entrepreneurship as being a result of a mix of more than one of these rationales are younger people aged 15-24 years old. Interestingly, those who never/almost never and from time-to-time have difficulties paying the bills are significantly less likely than those who most of the time have financial difficulties to engage in informal entrepreneurship, suggesting that for this group, financial difficulties are a motivating factor.

Table 3. Logistic regression of the likelihood of, and reasons for, participating in informal entrepreneurship in Europe

Variables	All informal entrepreneurs	Motives			
		Solely involuntary motives	Solely voluntary rational economic actor motives	Solely voluntary social actor motives	Mixed motives
	β (Robust se)	β (Robust se)	β (Robust se)	β (Robust se)	β (Robust se)
Gender (female)					
Male	-0.2166 (0.1571)	0.6746 (0.4899)	-0.1402 (0.2690)	-0.2267 (0.2487)	-0.1659 (0.1695)
Age (15-24)					
25-39	0.4587* (0.2610)	-0.1224 (0.7882)	-0.2740 (0.4792)	0.3584 (0.3989)	0.6960** (0.3033)
40-54	0.4796* (0.2843)	-0.8098 (0.8656)	0.5638 (0.4581)	-0.3145 (0.4577)	0.6663** (0.3217)
55+	0.1814 (0.3061)	-0.7524 (0.8978)	0.0043 (0.5265)	0.0302 (0.4580)	0.3957 (0.3478)
Marital status (re-married)					
Single living with partner & Single	-0.1059 (0.1983)	-0.1389 (0.5855)	0.2334 (0.2957)	-0.0160 (0.2979)	-0.2252 (0.2102)
Divorced or separated & Widow	-0.3953* (0.2077)	-0.2625 (0.5739)	-0.4698 (0.4048)	-0.1221 (0.2870)	-0.1861 (0.2259)
Employment status (not working)					
Self employed	0.2720 (0.2706)	-1.3942 (0.9583)	-0.4356 (0.4234)	0.0792 (0.3777)	0.4363 (0.2673)
Employed	-0.3946** (0.1768)	-0.9594 (0.5991)	-0.1224 (0.2897)	-0.0130 (0.2641)	-0.2998 (0.1943)
People 15+ years in own household (One)					
Two	-0.4705** (0.2331)	-1.3927** (0.6631)	-0.1099 (0.4361)	-0.2013 (0.3470)	-0.2713 (0.2359)
Three and more	-0.5981** (0.2457)	-1.7120** (0.8691)	-0.8378* (0.4527)	0.2487 (0.3448)	-0.3006 (0.2581)
Children (Having children)					
No children	0.0649 (0.1898)	0.0128 (0.5964)	0.5560* (0.2874)	-0.1758 (0.2930)	-0.0747 (0.2060)
Financial difficulties (Most of the time)					
From time to time	-0.1791 (0.2442)	-0.7427 (0.6474)	0.0671 (0.4253)	0.9639* (0.5012)	-0.4357* (0.2469)
Almost never/ never	-0.1140 (0.2399)	-0.2406 (0.5410)	0.4440 (0.4064)	0.9826* (0.5017)	- (0.2434)
Area (Rural area or village)					
Small or middle-sized town	-0.4006** (0.1841)	-0.1948 (0.5163)	-0.2864 (0.2746)	-0.1670 (0.2722)	-0.2014 (0.1941)
Large town	-0.7427*** (0.2004)	-1.1714 (0.7127)	-0.8096** (0.3621)	-0.3184 (0.3076)	-0.3306 (0.2173)
Region (East-Central Europe)					
Western	0.2304 (0.1858)	-0.2066 (0.5112)	0.5673* (0.3018)	0.1739 (0.2779)	-0.0236 (0.1978)
Southern	-0.2145 (0.2471)	-0.0227 (0.7167)	0.2208 (0.4232)	-0.1807 (0.4356)	-0.2254 (0.2642)
Nordic	0.1968 (0.2430)		0.4403 (0.3679)	0.2754 (0.3574)	0.0180 (0.2636)

Table 3 (continued). Logistic regression of the likelihood of, and reasons for, participating in informal entrepreneurship in Europe

Variables	All informal entrepreneurs	Motives			
		Solely involuntary motives	Solely voluntary rational economic actor motives	Solely voluntary social actor motives	Mixed motives
	β (Robust se)	β (Robust se)	β (Robust se)	β (Robust se)	β (Robust se)
Constant	1.1785**	-1.0546	-2.2291***	-	-0.1714
	(0.4622)	(1.1082)	(0.8506)	2.6751***	(0.5075)
Observations	764	646	764	764	764
Pseudo R2	0.0513	0.1045	0.0684	0.0312	0.0404
Log pseudolikelihood	-497.818	-82.929	-238.665	-260.4251	-444.356
χ^2	50.02	25.83	33.66	15.56	34.93
p>	0.0001	0.0777	0.0139	0.6234	0.0097

Notes:

Statistically significant at *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$ (robust standard errors in parentheses). All coefficients are compared to the reference category, shown in brackets. Only the individuals were kept in the analysis for whom data on each and every independent variable is available. When the models are regressed with clustering the individuals by country, the direction of the associations and the significances do not change for the independent variables discussed in the paper (with $p < 0.05$ or $p < 0.01$).

Source: author's calculations based on the 2019 Eurobarometer 92.1 survey

5. Discussion and Conclusions

This paper has revealed that in Europe, 2.05 percent (one in 49) of all European citizens participate in informal entrepreneurship. A logistic regression analysis reveals that those participating in informal entrepreneurship are significantly more likely to be not working, living in single person households, and in rural areas or a village. Examining their motives for engaging in informal entrepreneurship, five percent were reluctant participants, twenty percent were willing participants doing so as a rational economic decision, 21 percent were willing participants doing so because of their disagreement with the rules and 54 percent doing so for a mixture of all these motives.

The logistic regression analysis further reveals how those involuntarily participating in informal entrepreneurship are significantly more likely to be single person households while those explaining their informal entrepreneurship solely as a voluntary rational economic decision are significantly more likely to again live in single person households, but also to have no children and live in rural areas or a village than in a large urban area, as well as in Western Europe. Those significantly more likely to explain their informal entrepreneurship as a voluntary decision based on social reasons (e.g., related to discontent with the state) are those who never/almost never or only from time-to-time have difficulties paying the bills, suggesting that financial difficulty is not a motivating factor for these informal entrepreneurs. Those significantly more likely to explain their informal entrepreneurship as being a result of a mix of more than one of these rationales are younger people, and those who most of the time have financial difficulties, suggesting that for this

group, financial difficulties are a motivating factor. Here, the theoretical and policy implications are discussed.

Theoretically, this study advances knowledge by providing a theoretically driven, evidence-based understanding of entrepreneurs' motives for participating in the informal sector. Previously, most scholars of informal entrepreneurship have adopted one-dimensional theories to explain informal entrepreneurship (e.g., economic necessity because of their exclusion from the formal realm). However, the finding of this study is that no single theorization fully explains informal entrepreneurship. Instead, different theories are necessary to capture the motives of the full range of entrepreneurs participating in the informal sector. Moreover, this study has started to identify the characteristics of informal entrepreneurs who adopt the different theoretically driven rationales. The outcome is that it reveals the need for future studies to transcend the use of single theories to explain informal entrepreneurship and to view such theories as complementary explanations that capture the motives of different groups engaged in informal entrepreneurship.

These findings also have important policy implications for tackling informal entrepreneurship. Unless entrepreneurs' motives are understood for participating in the informal sector, policies cannot be developed that address these rationales. The conventional policy approach used by state authorities (i.e., tax and social security authorities and labor inspectorates) has been to raise the costs of participating in entrepreneurship in the informal sector by increasing the sanctions and probability of being caught (OECD, 2017; Williams, 2019b; World Bank, 2019). This is based on the belief that informal entrepreneurs are rational economic actors and that changing the cost/benefit ratio so the costs outweigh the benefits will prevent them engaging in informal entrepreneurship (Allingham and Sandmo, 1972; Hasseldine and Li, 1999). This study has revealed the groups most likely to be influenced by increasing penalties and the risks of detection, namely those living in single person households, with no children and living in rural areas or a village and in Western Europe. Nevertheless, only one in five (twenty percent) of informal entrepreneurs engage in such endeavors purely as a rational economic decision. The majority do so for additional reasons.

On the one hand, there are informal entrepreneurs who do so for the reasons highlighted by the structuralist explanation. To tackle those informal entrepreneurs who do so out of economic necessity, first, there is a need to tackle the process of sub-contracting to entrepreneurs in the informal sector and second, the fact they engage in such endeavors out of economic necessity because of the lack of other means of livelihood. On the former, there are a range of initiatives that can be used to promote due diligence in supply chains, including reverse supply chain responsibility, limiting the number of sub-contractors in supply chains, and the use of identity cards (Cremers *et al.*, 2017; European Platform Tackling Undeclared Work, 2018, 2019a, b). On the latter, it will be necessary to improve the universality and level of social protection (ILO, 2015, 2020) so these populations no longer need to engage in informal entrepreneurship to secure a means of survival.

Meanwhile, to tackle those informal entrepreneurs voluntarily doing so for social reasons, there is a need to align their beliefs, values and norms about the acceptability of participating in the informal sector with the laws and regulations. This can be achieved by changing their beliefs, norms and values using educational material and awareness raising campaigns about the benefits of formality and costs of informality (e.g., no sick leave, state pension contributions, holiday pay). Given that their views on the acceptability of informality are unlikely to change without alterations that create greater trust in state institutions, there is also a need to modernize state institutions. This requires improvements in redistributive justice, namely the belief they receive the public goods and services they deserve (Kogler *et al.*, 2013), procedural justice, namely that state institutions treat them respectfully and impartially (Kogler *et al.*, 2013; Murphy, 2005), and procedural fairness, namely the belief they pay a fair share (Molero and Pujol, 2012). The groups more likely to engage in informal entrepreneurship for social reasons and who require targeting by these campaigns and state modernization processes have been shown here to be those who have no financial difficulties paying the household bills.

Despite these theoretical and policy advances, this study has its limitations. It has analyzed only the situation in Europe. It is now necessary to evaluate how the prevalence of each of these motives differ in other global regions and individual countries (e.g., whether economic necessity is more prominent in the global South). This will influence the weighting given by government authorities to the various policy initiatives discussed above. In future surveys, it would be useful to conduct more qualitative research on their motives for informal entrepreneurship (e.g., analyzing their reasons for a lack of trust in what the state is seeking to achieve).

In sum, if this study stimulates more theoretically-driven, evidence-based evaluations in the global South and specific countries of who engages in informal entrepreneurship, their motives and the socio-economic and socio-demographic characteristics of those doing so for these varying motives, one intention of this paper will have been achieved. If this paper also leads supra-national institutions and national governments to contemplate moving away from a focus on raising the costs of informal entrepreneurship by increasing the penalties and probability of being caught when tackling informal entrepreneurship, then the fuller intention of this paper will have been achieved.

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