

## An Examination of Factors Motivating Informal Entrepreneurship in Ibadan, South West Nigeria

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### Abstract

The study examined factors motivating informal entrepreneurship in developing countries with a view to determine how the peculiarities of the context influence the choice of form to operate formally or informally by owners of businesses. Primary data were collected through structured questionnaire administered on 150 entrepreneurs of Entrepreneurship Development Centre (EDC) extraction with operational base in Ibadan metropolis. Data were analysed using the inferential statistical tools of Multiple Regression for determining the impact of identified variables and to measure association between variables. Findings revealed that informal entrepreneurship conforms to the traditional culture, norms and values held by Nigerians and it also indicated that formal rules/principles are generally perceived as mere imposition. The study concludes that there is the need for policy makers to constantly design home-grown entrepreneurial processes, easier and friendly legal framework that take into cognizance the local peculiarities so as to promote entrepreneurship in formal economy.

**Keywords:** Entrepreneurship; Informal entrepreneurship; Opportunity-driven entrepreneurship; Necessity-driven entrepreneurship; Formal Economy

### Introduction

Understanding the persistence and growing nature of informal entrepreneurship across contexts has become a major area of research in entrepreneurship studies (Schneider, 2008; Webb *et al.*, 2012). The general assumption that informal entrepreneurship is a symptom of underdevelopment dated back to the 20<sup>th</sup> century; but has persistently expanded in developed countries. However, little efforts have been made to examine the rationale behind its widespread and growing nature in developing countries. In substantial part of the 20<sup>th</sup> century, the general assumption was that informal entrepreneurship as cause of underdevelopment will disappear as more economies mature via modernization. This implies that, all economic activities of informal entrepreneurs are disappearing into formal entrepreneurship through natural and organic modernization process. As the economy develops, urban industrial base capable of absorbing surplus labour comes into existence; the consequence is either merger of informal entrepreneurship activities with its formal counterpart or extinction. Most recent studies (Evans *et al.*, 2006; Katungi *et al.*, 2006; Williams, 2006) have criticized this assertion with respect to the perceived extensive, enduring and expanding nature of the informal entrepreneurship. In developed economies, previous workers (Evans *et al.*, 2006; Katungi *et al.*, 2006; Williams, 2006) reported that it is a persistent feature of contemporary economic landscape widely used not only in the western world but also in post-socialist societies. However, very few evaluation studies have been carried out with respect to developing countries. The few studies focused on Central Eastern Europe (Smallbone and Welter, 2004; Stenning, 2005; Williams *et al.*, 2006; Aides *et al.*, 2007) and India (Gurtoo and Williams, 2009).

Informal entrepreneurship include economic activities that produce normal goods and services which are not intrinsically unlawful but violate some non-criminal rules through their unregulated production arrangements (Castels and Ports, 1989; Raijman, 2001). Cash transactions and exchange of services (bartering/swapping) are the most common method of exchange, while incomes are not recorded in order to avoid formal regulations (McCrohan *et al.*, 1991). The appraisal by OECD (2009) revealed grossly inefficient production due to limited scope, low paid and unsecured workforce that lack social protection. In addition the lack of access to capital through traditional means that manifested in low investment in physical capital was also additional revelation. The finding of OECD (2009) also revealed that erosion of tax revenue places heavy burden on other firms operating formally; resulting in an increase in costs of production that eventually hinder economic growth.

It is on these premises that the widespread and growing nature of Informal Entrepreneurship, with its attendant negative consequences become of particular importance to management researchers. This is most especially in developing countries where it accounts for over 70% of the workforce (ILO, 2002; OECD, 2011). This study evaluates incentives motivating the choice of form to operate formally or informally by business owners. It also attempts to determine how the peculiarities of developing countries influence business informality. The understanding of factors that motivate informal entrepreneurship in Nigeria (a developing country) will assist in fashioning out appropriate policy framework through which the inherent potential benefits could be harnessed for economic development of the country.

### **Trends in informal Entrepreneurship**

Incentives motivating informal entrepreneurship have often been ascribed by most management scholars to either “necessity-driven” – those marginalized, less-privileged and the poor of society who just must “get-by” their lives – and ‘opportunity-driven’ – the well-to-do who establish ventures for self-actualization, to make extra incomes and/or to exploit loopholes in the institutional framework of a formal economy (Bygrave and Autio, 2006; Hardind et al, 2006; Maritz, 2004; Smallbone and Welter, 2004). These was based on the assumption that informal entrepreneurship was a symptom of underdevelopment, representing involuntary, forced, reluctant attributes of surplus labour from the formal economy for survival purposes (Hughes, 2006; Singh and De Noble, 2003). However, recent literature (Cross, 2000; Gerxhani, 2004; Snyder, 2004; Williams and Windebank, 2001) has given recognition to the extensive and growing nature of both forms of informal entrepreneurship in many developed economies.

In another development, (Bennett and Estrin, 2007; Bosch and Maloney, 2007) observe, informal sector may serve as a stepping stone to formal business ownership. Related studies (Tokman, 2007; Fields, 2007), posit that a lack of jobs in the formal sector may force individuals to temporarily work in the informal sector. If the more educated people have greater aspirations for formal jobs, then, more of them would be found as necessity entrepreneurs. At the same time, if the more educated are more aware of business opportunities, one may expect opportunity entrepreneurs to be more educated. Furthermore, the World Bank Group Enterprises Survey of 2009, while comparing opportunity- and necessity-driven firms in Africa, also observes that the motivations behind starting a business influence the performance of informal firms. And that opportunity firms are more efficient and larger; more likely to use external finance and suffer less from infrastructural bottlenecks than their necessity-driven counterpart (Amin, 2010). The implication of all these is that while many firms were established to take advantage of business opportunities, some more were established because their owners could not find satisfactory jobs.

### **Entrepreneurship as a concept**

There are as many definitions of entrepreneurship as there are interested scholars that attempted the subject. Giving base definition with respect to the nature of enterprise, entrepreneur’s characteristics and factors influencing entrepreneurship, Jean-Baptiste Say, describe entrepreneur as one who shifts economic resources out of an area of lower, into an area of higher productivity and greater yield. Building on this premise, Joseph Schumpeter (1934), who identified in an entrepreneur the force required to drive economic progress, described him as one with entrepreneurial spirits, who identifies a commercial opportunity and organizes a venture to implement it by setting off a chain reaction through which the new innovation eventually renders existing ventures and their business models obsolete (Stevenson, 1983). From these theoretical perspectives, it could be deduced that entrepreneurship describes the combination of a context in which opportunity is situated and a set of personal traits required to identify, pursue and create desired outcome. By implication entrepreneurship is about individual special characteristics to identify, evaluate and exploit an opportunity. As affirmed by Martin and Osberg (2007), entrepreneurs possess a unique set of characteristics including inspiration, creativity, direct action, courage and fortitude that are fundamental to the process of innovation. For the purpose of this study we adopt Adele (2014) definition of entrepreneurship as a socio-economic process by which an individual discovers and evaluate an opportunity, and with available resources, plan, design, produce and offer for exchange items or services of value in the market for mutual benefits.

Informal entrepreneurs are first and foremost entrepreneurs with the same set of special characteristics identified by Martin and Osberg (2007). They also deploy these personal traits while pursuing their economic activities. The ILO (2002), lend credence to this assertion when it volunteered that informal economy, not only act as incubator for entrepreneurs, but also as a transitional base, for accessibility and graduation into formal economy, through which they demonstrate real business skills, dynamism, creativity and innovation required of any entrepreneur. Thus individual entrepreneurs operating informally are not different from their counterpart in the formal sector save their hidden enterprises culture.

Informal entrepreneurship like mainstream entrepreneurship has been variously described by many scholars from different perspectives, but with its common hidden features. For the purpose of this study we adopt the definition of informal entrepreneurship as given by the OECD (2002) in conjunction with the International Monetary Funds (IMF), International Labour Organization ILO, (2002) and the Interstate Statistical Committee of Commonwealth for independent States as “all legal production activities that are deliberately concealed from public authorities for the purposes of evading taxes, social security contributions, meeting certain legal standards as minimum wage, maximum number of hours, safety or health conditions etc.” (OECD, 2002). In the same vein, the Small Business Council (2004) classify informal entrepreneurship activities to include; start-up fledging business ventures who use informality as a short-term risk-taking strategy to test-market or get themselves established; the self-employed people and established small businesses that uses informal platform in a serial manner as a strategy for “getting-by”; and the informal favour providers who conduct mostly casual one-

off tasks as paid favour for friends, family and acquaintances. Thus all unregistered economic activities as home maintenance (routine repairs), subcontracting, street vending, home (small-scale) manufacturing, and all other self-employment or do-it-yourself economic activities fall in the category of informality. It should however be noted that criminal activities usually driven by inordinate ambition; fraud and anti-social intents like human and drug trafficking, armed robbery, prostitution and their likes are not included in this category. For the purpose of this study, we focus on the small scale businesses by self-employed people who establish and use informality in a serial manner as a strategy for getting-by.

### **Incentives Motivating Informal Entrepreneurship**

The typologies usually employed by scholars to distinguish formal and informal entrepreneurs are context-based (Webb et al, 2012), these include; institutional context, resource allocation context and motivational context. In his contribution to its theoretical research, Scott (2004) describes the institutional theory as the processes by which structures, including schemas, rules, norms and routines become established as authoritative guidelines for social behavior with a view to foster stability and order in social life. Under this context, the constituted authority determines whether the entrepreneurial processes employed to launch a venture conforms to rules and regulations governing such conduct. The social groups within the society on the other hand, determine whether they are legitimately acceptable based on the norms, customs, values and beliefs of the majority in the society (North, 1990; Suchman, 1995). By implication, institutional environment is a key component of the context that provides information regarding the attractions of opportunities in the formal and informal economy. And as posited by Clemens and Cook (1999), institutional theory informs how the characteristics of institutional context influence entrepreneurship in the informal economy, how and why differences in legitimacy may provide opportunity to be exploited. This is with respect to the nature of law enforcement, efficiency of institutions, and delineation of authorities among agencies. Thus differences in formal and informal institutions definitions of social acceptability, degree of bureaucracy, conflicting institutional centers facilitate opportunity recognition and exploitation such that an alert individual who is prepared to risk operating outside formal institution could exploit loopholes within conflicting formal institutional frameworks.

Resource allocation context, as postulated by Simon et al (2007), states that to exploit an opportunity, an entrepreneur needs to acquire and leverage necessary resources that enable him create new ventures that deliver value to the society. However, it is common knowledge that start-ups are usually faced with a situation of resource constraints. In other words, lack of access to formal economy's resources may force individuals to embrace informality. An individual, as noted by Kanfer and Ackerman (1989), is left to determine how to acquire and manage severe resource constraints without access to overarching formal infrastructure in his bid to perform a task. And as affirmed by Webb et al, (2012) this resource constraint inadvertently brings out entrepreneurial skills of individuals concerned, as they deploy efficient allocation strategies like carrying small inventories, convert family resources and drawing informal loans, in order to achieve set objectives. In this case individuals might react to this inadequacy of formal economy and see no justification to pay tax or register such business.

From the motivational context, motivation theory attempts to answer the question "why we do what we do", and concerns itself with individual's needs and goals and how his motivation occurs (Alderfer, 1969; Herzberg, 1959; Maslow, 1943 Vroom, 1964). Motivational theories suggest that economic and social considerations become critical when individual entrepreneur is to make decisions whether to operate formally or informally. Various studies (Agnew, 1993; Gentry and Hubbard, 2005; Neuwirth 2011), suggest there are strong economically rational motives behind entrepreneurs operating informally. Entrepreneurs are most successful when they gain access to financial, human and professional resources they need to operate, and in an atmosphere in which formal policies encourage and safeguard them (Isenberg, 2009; Metron, 1968; webb et al, 2012; Williams et al, 2009). However, when an individual lacks access to legal means in order to achieve organizational objectives, the tendency is to draw on illegitimate means to fulfill this ambition. To operate formally create costs; such as taxes, registration fees, compliance with policies, which may be avoided informally to the extent it does not involve enforcement threats and/or loss of access to benefits provided by formal institutions. Higher taxes increase the size of informal economy (Schneider and Enste, 2002), and these higher costs discourage entry into formal economy as the value the entrepreneurs can appropriate from their activities is reduced (Gentry and Hubbard, 2005). By implication, individuals operating informally might have voluntarily chosen this form in order to avoid the costs, time and efforts of formal economy.

Classification of incentives for entrepreneurship have often been attributed to the study by Bogenhold (1987), who distinguished between entrepreneurs motivated by economic needs and those driven by their needs for self-actualization. Building on this simple dichotomy, several researchers have since classify entrepreneurs as either "necessity-driven" – those marginalized, less-privileged and the poor people of society that just must get-by their lives. They are forced into starting up a business because all other options for work are either unsatisfactory or non-existence and "opportunity-driven" – those well-to-do, who venture to exploit identified

business opportunities (Aidies et al 2007; Harding, et al, 2006; Maritz, 2004; Minniti et al, 2006; Smallbone and Welter, 2004) . This classification has since become widely used to the extent that the Global Entrepreneurship Monitor (GEM) employed them in its predominant global survey of the degree and nature of entrepreneurship.

However, some studies (Aidies et al 2007; Cross, 2000; Gerxhani, 2004; Smallbone and Welter, 2004) have further observed a dichotomy in that most start-up entrepreneurs in the advanced economies are getting involved in informal economy as a matter of choice. As Gerxhani (2004) noted, they chose to participate in the informal economy because they find more autonomy, flexibility and freedom in the sector, and set their career on a new path either to transform their identity or reveal their entrepreneurial prowess (Synder, 2004), thereby doing so out of choice (Cross, 2000).

On the other hand, recent studies, especially from East-Central Europe (Aidies et al 2007; Smallbone and Welter, 2004), have begun to question the rationale behind the simple classification, as they observe, it is much more difficult separating these motives from each individual. Smallbone and Welter (2004) found out that it is more difficult to find employment satisfaction (sufficiently rewarding) by well-educated people in early-stage transition economies. In a related study, Aidies et al (2007) also found that, not only do individuals possess both motives, but that these motives do change over time. Thus, a re-theorization depicting that entrepreneurial motives of necessity and opportunity can be co-present in an individual and could even change over time has begun to materialize in literature.

The dichotomous classification of entrepreneurs as either necessity- or opportunity-driven is impliedly attributed to informal entrepreneurship. It has variously been argued that individuals are universally driven by necessity into informal entrepreneurial sphere by their inability to secure formal employments and so embrace informality as a last resort and for survival purposes most especially in developing countries (Castells and Portes, 1989; Gallin, 2001; Portes and Walton, 1981; Raijman, 2001; Sassen, 1997). They saw it as largely, low paid and insecure kind of survival-driven, self-employment, conducted under sweatshop-like conditions by marginalized poor who are excluded from formal employment. Taking a detour from this perspective, another set of studies (Biles, 2009; Cross and Morales, 2007; De Soto, 1989; SBC, 2004; Sauvy, 1984) consider the growth in informal entrepreneurship to be a matter of choice. They argue it is as a result of what they term “over-regulation in the formal economy. Entrepreneurs voluntarily choose to operate informally in order to avoid taxes, costs, time and other efforts of formal registration. Corroborating this view, Ports and Sassen-Koob (1987), posit that informal entrepreneurship activities also require physical and human capital that the poor might not possess. Thus it is only the rich that can afford to partake in both formal and informal activities.

### **Informal Entrepreneurship in Ibadan**

Ibadan, the commercial and administrative center of the old Western Nigeria, is the third largest city in Nigeria after Lagos and Kano. With a population of 3.1 million (World Bank, 2012; CIA, 2012), its enterprise culture is not different from the other industrial clusters in Nigeria (Kaduna-Kano, Portharcourt-Onitsha and Lagos-Ibadan). Adult literacy rate in Ibadan (Oyo State) was estimated as above 70% by the UNESCO report of 2008, while its unemployment figure stood at 23.9% as at 2011, proportion of citizens below poverty was estimated above 70% in 2010 (World Bank, 2012; CIA, 2012), little wonder the proportion of people embracing self-employment is on the increase. The World Bank Development Report (WBDR) of 2001 classifies the Nigeria industrial framework into; Large, Medium and Small scale enterprises that must be harmonized in order to enhance the nation’s development. It observes efforts are usually concentrated on the large scale sector to the detriment of others with debilitating consequences. Though there is no clear cut definition of SMEs in Nigeria, the WBDR rely on the National Bureau of Statistics (NBS) and the Small and Medium Enterprises Development Association of Nigeria (SMEDAN) definitions (Appendix 1) that classify small business to include Micro Scale Enterprises (MSE) and Small Scale Enterprises (SSE). MSE is defined as those with assets value of less than five million naira or of less than ten employees, SSE include those enterprises with assets between five and fifty million naira or paid employees of between ten and forty-nine employees, while MSE are those with between fifty and one hundred and ninety-nine paid employees or with assets value between fifty and five hundred million naira (SMEDAN/NBS, 2012).

From historical perspectives, the degree of moral acceptance of informality in Nigeria could be seen in the perceived foreignness of formal rules and regulations which are generally believed to be legacies of colonial masters. It was Bloks (1974), from his study of the roles of Sicilian Mafia, who observed that mass disobedience is acceptable where a group of people considers themselves oppressed by the rules of others. The Mafiosos played significant roles in helping the peasants bypass rules and regulations imposed by generations of their rulers. Related study by Alam (1995) asserts, when a law is not reinforcing prevailing morality, its chances of enforcement is considerably lessened, and in such circumstances illegality is not always seen as immoral or damaging. The rampant disregard to formality by Nigerian entrepreneurs could be linked to its generally perceived foreignness (an unnecessary imposition). They are used to the subsistence nature of production that gives them unalloyed freedom to govern their lives. This is in agreement with Sadar (1996), who argued that



rigid constraints of complying with strict economic regulations imposed from outside can be evaded to the benefit of all participants.

The pre-colonial Nigerian economy, as described by Roger (1996), was a traditional African economy in which production depended largely on families, communal efforts and professional groups/guilds known as “communalism”. Under these circumstances, there is neither need for business registration nor contractual arrangement between labour and the employers. In a related study, Ogunremi (1996), noted the major arts and crafts in which Nigerians were famous such as; salt extraction, soap production, cloth-weaving, wood and metal works and the likes, were organized prior to the 19<sup>th</sup> century, by Nigerian rulers, chiefs, potentates, influential men and women with enough wealth and powers as entrepreneurs who mobilize resources and organize commercial production activities such as leather works in Kano; textiles in Ijebuland; fishing in Ilaje and metal works across Southwestern Nigeria. They are by no means poor, and cannot be said to venture into these activities as entrepreneurs on survivalist strategy.

Recently however, the advent of modernization/globalization has necessitated mass production (beyond subsistence) to the extent each producer requires more resources than he can raise. Unfortunately, formal economy has been grossly inadequate in this respect. The OECD, 2006 Report explained that the financial institutions deficiencies that prevent SMEs from growing to their optimal size could be linked to the absence of empirical causal link between them and economic development that promote informality (Beck and Demirguc-Kunt, 2006). Similar study in China, (Ayyagari, Demirguc-Kunt and Macksimovic, 2010) confirms SMEs prefer informal finance because it is easier to access. This view was confirmed by Sanusi (2013), that it is the informal, rather than formal capital markets that provide the bulk of finance, especially for the small enterprises in Nigeria, a situation that must be reversed in order to enhance the nation’s industrial development. The situation is worrisome to the extent private provision is often made for the supply of energy, water and other essential services in order to effect production of goods and services in commercial quantities. In this kind of situation, individuals might not see any justification to register or pay tax to any authority.

To address the precarious situation, several initiatives to promote industrial development have been introduced by government and its agencies, however with disappointing outcomes in terms of effectiveness and sustainability. They include National Directorate of Employment (NDE), Peoples Bank of Nigeria, Community Bank, Microfinance Banking, Nigeria Industrial Development Bank to mention but a few. However, the recently established National Economic Empowerment Scheme (NEEDS), while appraising these initiatives observed that though none of them was completely without merits, the truth is that they did not have a significant lasting sustainable positive effect (NEEDS, 2004). By implication, these initiatives are direct confirmation of informal entrepreneurs as significant partners in this economic landscape and that efforts are being made to promote and harmonize them for overall economic development.

In 2006, taking a cue from the NEEDS observation on existing initiatives, the CBN established the Entrepreneurship Development Program to address the phenomenon of youth unemployment and promote entrepreneurship development in the country. The program is designed to provide training, strategies and certification to participants, encouraging them to embrace micro, small and medium enterprises as alternative employment options, while facilitating easy access to start-up capital via funds through banks and allied financial institutions. Of the three centers established in the geo-political zones, Lagos center serves the entire Southwestern Nigeria, and many beneficiaries are found in Ibadan metropolis. It is from the pool of these beneficiaries this study intends to pick sample in order to facilitate answers to the research questions.

## Methodology

A census-based survey of entrepreneurs and business owners who graduated from the Entrepreneurship Development Centre (EDC) and who operates within Ibadan metropolis was the focus of this study. The choice of Ibadan was not unconnected with the concentration of various sized enterprises there as one of the three industrial clusters in the country (Elumilade, et al, 2001). The third most populous city after Lagos and Kano (NPC, 2006), that serves as large market for goods and services. And its relatively cheaper costs of living compared to Lagos with which it shared the zonal industrial cluster, makes it an attractive abode for small and medium enterprises alike. EDC is a training program designed by the Central Bank of Nigeria (CBN) to provide training, strategies and certification programs. The objective is to assist young Nigerians embrace business enterprises as an alternative employment option, thereby reducing/alleviating their poverty level.

This study took samples from the population of EDC graduate business owners operating informally with respect to hiding part or whole of their activities from the formal authorities. The sampling was done through a multi-stage sampling procedure of stratifying informal entrepreneurs into micro, small and medium scale enterprises, to ensure they were all well represented in the sample. Also, random sampling method was employed to choose graduates of the EDC operating within Ibadan metropolis as appear in the register of EDC, to ensure each has equal chance of being selected.

Random sampling method was employed to choose 150 entrepreneurs, who have participated in the

EDC program and have been operating since 2007. This was to ensure each have been operating for a minimum of five years. Stratified sampling procedure was employed to classify them into three economic activities of manufacturing, services and commerce, from where a minimum of 10% participants was randomly selected to ensure equal proportional representation. Data obtained were analyzed using inferential statistical tool of Multiple Regression to determine the impact of opportunity identification, institutional foreignness, motivational factors and group effects on informal entrepreneurship. Regression analysis measures association between identified variables and was particularly used in predicting the value of our dependent variable given the value of our independent variables. Analysis of Variance was also employed to confirm and justify the appropriateness of the statistical model adopted for the study.

It should be noted that, although participation in EDC program is free, a set of entrepreneur who could not afford transportation, accommodation, feeding and other costs are excluded, however, this does not in any way affect the reliability of the result of this study. Primary data were collected through the instrumentality of structured questionnaire to generate distributions for the study. The questionnaire was administered using random sampling method on business firms whose owners have participated in the CBN organized EDC training program. This was done personally with the aids of two assistants between January and April, 2014. Secondary data were obtained from the EDC records monitoring activities on its graduate participants.

The use of interviews and questionnaires to obtain data/information from informal sector operators has been recognized in literature. Several studies (Leonard, 1994; MacDonald, 1994; Williams, 2006) have confirmed that just because these activities are hidden from the state for tax or other purposes does not prevent entrepreneurs from openly discussing with researchers. And in Nigeria, informal enterprises are given recognition by constituted authorities for the roles they play in economic development. This view was confirmed by (Sanusi, 2013), while launching the EDC programme that it is the informal rather than formal market that finance small and medium scale, and that due to the skewed nature of their operating environment, various initiatives are designed to encourage, harmonize and integrate their activities.

The types of variables derivable from the research questions and its objectives are: informal entrepreneurship; opportunity identification; opportunity exploitation; institutional foreignness; motivational factors and social-group effect. Informal entrepreneurship is described as all legal activities that by occurring outside the arena of normal economy, escape official record keeping for tax or other purposes (Castels and Ports, 1989; OECD, 2002; Rajjman, 2001). This is the study's dependent variable that was explained by record of registration, tax/levy obligations, staff welfare and standard book-keeping. Business owners were requested to confirm their registration status, tax obligations, staff welfare and book-keeping practices. Those that respond to all these in the negative were deemed to be operating informally.

Opportunity identification is the ability of an individual/ group to recognize factors capable of triggering business opportunities before venturing to exploit them. It is central to entrepreneurship and is one of the most important features of a successful entrepreneur. This is in line with various studies that have given recognition to opportunity identification as a very important feature of entrepreneurship (Carrol et al, 1987; Lond and McMullan, 1984; Shane et al, 2003; Shane and Venkataraman, 2000; Wood and McKinley, 2010). Most business owners view their ventures as a development of their intuition that is variously influenced by their previous work experience, business skills, managerial capability and their level of education. Business owners were asked to confirm their level of education, work experience and managerial capability (e.g. number of employees).

Opportunity Exploitation is the modalities by which identified opportunities are transformed into mutual benefits for both the producer and consumer. It describes the form (formal/informal) of operation entrepreneur considers the best option through which the transformation is effected to fulfill the tenet of entrepreneurship. This however depends on the motive(s) the entrepreneur have in setting up the business in the first instance. Business owners were requested to pick motive(s) that prompt them to launch their ventures.

Institutional foreignness is another identified construct for the study. Institutional theory suggests that enduring system of laws, regulations and their supporting apparatuses (formal) versus societal values, norms and beliefs (informal) influence individual's and firm's actions without necessarily having to mobilize or intervene to achieve expectation (Clemens and Cook, 1999). Differences in formal and informal institutions definitions of social acceptability, degree of bureaucracy facilitate opportunity recognition and exploitation. Where the set of rules and regulations guiding conducts in a society is generally perceived as foreign or imposition, enforcement becomes weakened and ineffective. Business owners were asked to respond, through a 5-point likert's scale, statements such as:

- Business registration is time-consuming and unnecessary;
- business registration does not conform with our cultural values and norms;
- cost of compliance to formal rules is bound to push up operating costs;
- expected benefits from formal institution is minimal compared to informality.

Motivational factors constitute another identified construct for the study. Entrepreneurs are most

successful when they gain access to financial, human and professional resources they need to operate, and in an atmosphere in which formal policies encourage and safeguard them (Isenberg, 2009; Metron, 1968; webb et al, 2012; Williams et al, 2009). However, when an individual lacks access to legal means in order to achieve organizational objectives, the tendency is to draw on illegitimate means to fulfill this ambition. By implication, entrepreneur's choice to operate formally or not is influenced by availability of access to economic resources (finance, strategic information, training, professional advise etc) he needs to operate his venture. Business owners were asked to respond to statements, through a 5-point likert s scale, such as

- access to formal institution finance is difficult to SME owners due to stringent requirements
- obtaining strategic information officially is costly and time-consuming
- access to formal training is costly to small business owners
- cost of operating outside formal institution is minimal relative to formal institution benefits

Social-group effect is yet another construct identified for the study. Formation of groups that possess different definitions of social acceptability from those in the position of authority has been recognized in literature (Friman, 2001; Lawrence et al 2002; Webb et al 2009). Group-level institutions can provide entrepreneurs operating in the informal economy with mutual supports, mutual aids, unofficial financial assistance, routine information, sense of security through which they achieve collectively what individually may not be feasible. However, this often leads to definitions of legitimacy that conflict with legal prescriptions. This construct was measured with business owner's appraisal, through a 5-point likerts scale, of variables such as; mutual aids, unofficial financial assistance, routine information and sense of security from both formal and informal institutions.

Data obtained were analyzed using inferential statistical tool of Multiple Regression to determine the impact of opportunity identification, institutional foreignness, motivational factors and group effects on informal entrepreneurship.

## Results and Discussion

The study examined incentives motivating the choice of informal entrepreneurship in Ibadan, Nigeria with the major objective of determining the peculiarities impacting its choice in developing countries context. The extent to which identified variables contribute to the choice of informality for business owners was examined through the instrumentality of structured questionnaire.

The ANOVA result as obtained in Table 4.1(Appendix 1) indicates a higher value of Regression (at 12043.241) which demonstrates the model is capable to capture the essence of the study. This is confirmed by an F- value of 29.8 and which is significant at 0.03 levels. There was a positive relationship between explanatory variables and the independent variable at 0.743. This was indicated by an  $R^2$  value of 55.2%. Thus the joint contributions of independent variables accounted for a variation of 55.2% in the choice of informality by business owners. This was confirmed by an F-value of 29.8 at 0.03 level of significant.

From the Regression coefficient table, all the identified variables have positive contributions to the choice of informality. While institutional foreignness have the highest contribution at 1.574, with a t-value of 3.042 and was significant at 0.02. This indicates requirements for formal institution is alien to African culture. The Group effects followed with a contribution of 0.947 at a t-value of 3.149 and are also significant at 0.03. Motivational factors also contributed 0.749 with a t-value of 2.058 this is also significant at 0.04. This indicates informal entrepreneurship is a choice by business owners after rational considerations. It should however be observed that opportunity identification have the least contribution of 0.081 and a t-value of 1.018. It was not significant at 0.07 meaning that a business owner would first and foremost be an entrepreneur before choosing to operate formally or not.

Findings revealed that the choice of informality by business owners in developing countries is highly influenced by factors such as institutional foreignness. As confirmed by most respondents and analyzed in Table 4.1.2(Appendix 1), the pre-colonial subsistence nature of production culture still have dominating influence on business owner's choice of operational modalities. This is in consonance with earlier studies (OECD, 2006; Isenberg, 2009; Roger, 1996). The traditional Nigerian production system was communalism, which depends largely on families, communal efforts and professional/trade groups. The critical thing is to tailor the suit to fit local entrepreneurial dimensions, style and climate, by fostering homegrown solutions based on realities of their own circumstances.

The study revealed group effects to have high influence on business owner's choice of informality (Table 4.1.2). This confirms further the traditional communal nature of production in this clime. Most respondents confirm trade groups and cooperative societies are the traditional response to the advent of commercialization in which the people collectively achieve high level of output which is impossible to achieve individually. The result is in agreement with Webb, et al, (2012), that trade/market associations are established to protect the value of their opportunities and subcontracting relationships to secure larger opportunities. It is also in tandem with the work of Odegaard (2008), while examining effects of market association in Peru. That

while alone, individual entrepreneur is susceptible to formal institution enforcement and opportunistic stakeholders. Collective efforts can increase their influence within their context, guaranteeing security and sense of belonging.

Contributions from motivational factors are also very important, as confirmed by most respondents to the survey and revealed in the Table (4.1.2). Access to critical resources like finance, strategic information and professional advice goes a long way to determine operational modalities for business owners. They are into business to make profits, hence must make rational choices. The result is in agreement with study by Gentry and Hubbard, 2005, that high cost of compliance to formal rules discourages entry into formal economy, as the value the entrepreneur can appropriate from their activities is greatly reduced. The results also affirm the study by Isenberg, 2010, that simplified tax regimes and legal processes facilitates entrepreneurship by allowing entrepreneurs avoid onerous tax-prepayments and cumbersome registration processes.

While opportunity identifications contribution is insignificant, since entrepreneurial traits are somehow common to business owners, the table revealed opportunity exploitations contribution is significant. This implies that modality for operation is the only differing factor. While many firms (67.6%) were established to take advantage of business opportunities, some (32.4%) were established because their owners could not find satisfactory jobs. This corroborates World Bank Enterprise Survey in 2009, while comparing necessity versus opportunity informal firms in Africa, that 39% were necessity- and 61% opportunity-driven. However, these results negate the findings of OECD, 2006 Report in which necessity-driven entrepreneurs were observed to be in the majority. This might not be unconnected with the exclusion of cultural norms and value systems of these context through which the people cherish their independence and unalloyed freedom to make choices.

## Conclusion

Findings from the study have shown positive relationship between the choice of informal entrepreneurship and all identified variables. The high influence of culture and tradition on business owner's choice has lent credence to the assertion that charity begins at home. the rampant disregard to formal rules (by Nigerians) is traceable to the fact they are not reinforcing prevailing morality and thus perceived as unnecessary imposition.

The study also revealed group effects as complimenting the traditional norms and values of Nigerians. They feel more secured obtaining needed economic resources from trade groups who consists of people with common interests, background and challenges. And that the free flow of information among trade groups afford them more benefits relative to what is obtainable from the formal sector

The findings also revealed that more often, it is the well-to-do and affluent people that possess the capability to mobilize resources for entrepreneurial processes, thus lending credence to informality as a matter of choice. To exploit business opportunities require the deployment of physical and human resources that may be beyond the reach of the poor. This explains why it is the Chiefs, Rulers and the influential men and women that were entrepreneurs in Africa before colonization.

The policy implication of these findings is that, while informal entrepreneurship was found to conform with the Nigerian cultural norms and values, the critical thing to do is to fashion-out homegrown entrepreneurial processes that suit local peculiarities and based on the realities of their circumstances, their natural resources, geographical location and culture.

The assertion (ILO, 2002; OECD, 2006) that informal entrepreneurship in developing countries was predominantly necessity-driven may not hold after all. However, getting them registered would not improve their sub-optimal performance; rather efforts should be made to provide jobs for the unemployed.

Also efforts should be made to simplify the regulatory framework with a view to make it easier, friendly and encourage individual entrepreneurs to operate in the formal sector. This becomes necessary as individuals do make choice by weighing available options as to which form translate to maximum benefits to them.

These results that indicate informal entrepreneurship as conforming to Nigerian cultural values have been taken from the small and medium enterprises sector-respondents. Further empirical studies are required across several sectors of an economy in order to show commonality (if any) to give a more robust rationale for its looming nature in this context.

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## APPENDIX 1

**Table: 4.1 Results of Analysis of Variance**

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	12043.241	5	2408.648	29.8	0.03
Residual	11711.672	145	80.770		
Total	23754.913				

Predictors (constant): opportunity identification, opportunity exploitation, institutional foreignness, motivational factors, group effects

### Model Summary of Regression Results

Model	R	R Square	Adjusted R Square
1	0.743	0.552	0.546

**Table: 4.1.2 Results of Analysis of Coefficient**

Model	Unstandardized Coefficient		Standardized Coefficient		T	Sig
	Beta	Std Error	Beta			
(constant)	48.375	4.247				
Opportunity identificatn	0.081	0.041	0.032		1.018	0.07
Opportunity exploitation	0.314	0.104	0.210		2.018	0.04
Institutional foreignness	1.574	0.425	0.982		3.042	0.02
Motivational factors	0.749	0.217	0.487		2.058	0.04
Group effects	0.947	0.314	0.613		3.149	0.03

Dependent variable: Informal Entrepreneurship

## APPENDIX 2

**Table 1: Small Business Definitions by SMEDAN/NBS**

S/No	SIZE/CATEGORY	EMPLOYMENT	ASSETS (Nm) Excluding land and buildings
1.	Micro Enterprises (MSE)	Less than 10	Less than N5m
2.	Small Scale Enterprises (SSE)	10 – 49	N5m – N50m
3.	Medium Scale Enterprises (MSE)	50 – 199	N50 – N500m

Source: SMEDAN/NBS 2012

APPENDIX 3

INCENTIVES MOTIVATING INFORMAL ENTREPRENEURSHIP IN IBADAN, NIGERIA

**BACKGROUND INFORMATION**

1. Gender: (a) Male   
 (b) Female
  
2. Age: (a) Under 20 years   
 (b) Between 21 —30 years   
 (c) Between 31 —50 years   
 (d) Above 50 years
  
3. Marital Status (a) Single   
 (b) Married   
 (c) Divorced/Separated
  
4. Educational Status:  
 (a) Ordinary level certificate   
 (b) ND/A' Level   
 (c) BSc/HND   
 (d) Masters and above
  
5. In what type of business are you engaged in?  
 a. Manufacturing   
 b. Services   
 c. Commerce   
 d. Other  .....
  
6. How long have you been operating after participating in the EDC programme?  
 (a) Under 1 year   
 (b) Between 1 —2 years   
 (c) Between 2 —5 years   
 (d) Above 5 years
  
7. Is your business registered with any revenue collecting authority? Yes  No
  
8. How many workers do you operate with? .....
  
9. How many of them are on contractual employment? .....
  
10. Do you keep or maintain transaction records? Yes  No
  
11. How often do you balance your books of account?  
 Yearly   
 Twice a year   
 Quarterly   
 Monthly
  
12. Which of the following sources of finance did you use for setting up your own business?  
 (you may tick more than one options)
  
- a. Personal savings
- b. Personal loan from family/friends
- c. Microfinance loans
- d. Mutual aids/cooperative association credits
- e. Bank loan
- f. Government grants
- g. Private equity



13. What was your motive to set up your own business?

(Very important 5, important 4, mildly important 3, not very important 2, unimportant 1)

i. To be my own boss	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
ii. To practicalise my experience	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
iii. To earn extra incomes	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
iv. For social recognition	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
v. To build family legacy	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
vi. To provide jobs for my people	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
viii. To make a living	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>
vii. To exploit perceived opportunity (To produce Goods and services)	<input type="text" value="1"/>	<input type="text" value="2"/>	<input type="text" value="3"/>	<input type="text" value="4"/>	<input type="text" value="5"/>

14. Business registration processes are complex, time-wasting and unnecessary

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

15. Business registration does not conform to our cultural values and norms

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

16. Expected benefit from formal institution is unreliable as businesses have to provide most basic infrastructure themselves.

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

17. Access to formal institution benefit is fraught with bribery and corruption

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

18. To succeed, it is sometimes necessary to work around the rules

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

19. Formal institution lending strategy is unfavourable to SME owners due to stringent requirements.

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

20. Obtaining strategic information from formal institution could be costly and time-consuming

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

21. For small/micro businesses, taxes and other costs of business registration is bound to push up operating costs

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

22. Access to formal training and development is costly to small business owners

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

23. Perceived costs of operating outside formal institution are minimal relative to formal institutions benefits

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

24. Membership of trade group serves as my primary source of business information and advice

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

25. Obtaining financial assistance from trade groups (cooperatives) is much easier

a. Strongly disagree b. Disagree c. Agree in part d. Agree e. Strongly Agree

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