Chapter 1

Introduction

1.1 Introduction

Small businesses have been argued to be important for developing countries’ growth and employment prospects (e.g. Anderson et al., 2003; Fritsch and Storey, 2014; Vilenskii, 2003). Certainly, scholars have commented on the contribution of small businesses to the economic growth and development of advanced economies (Arinaitwe, 2006; Bruce et al., 2009). In particular, studies on advanced economies have found that small businesses are an important source of employment (Ayyagari et al., 2014) and that they tend to create more jobs than large businesses, being more labour-intensive (Beck et al., 2005; Haltiwanger et al., 2013). For these reasons there is much interest amongst scholars and policy makers to understand how small businesses can be a catalyst for development and growth in the least developed countries (LDCs)\(^1\), majority of them are in Sub-Saharan Africa (SSA) (Fatai, 2011; United Nations, 2014).

One feature of most small business in SSA that may limit the potential development contribution of small business is their informal\(^2\) nature. The informal sector represents 50 percent to 70 percent of the total employment in Sub-Saharan Africa (Becker, 2004; Medina et al., 2017, p. 19; Sparks

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\(^1\) LDCs is a list of the countries that, according to the United Nations, exhibit the lowest ratings of per capita income, human development and social economic development of all countries in the world (United Nations Conference on Trade and Development, 2015).

\(^2\) It should be stressed that although the informal sector consists of business activities that are unregulated and unregistered by the government the firms are nevertheless providing legal goods and services (Bruton et al., 2012). This domain is recognised by different names, amongst them include: “irregular economy”, “black economy”, “hidden economy”, “shadow economy”, “parallel economy”, “non-monetary economy”, “second economy”, and “off the book economy” (see: Gibbs et al., 2014; Gulzar et al., 2010)
and Barnett, 2010). It is widely advocated that SSA countries could benefit from encouraging the formalisation of informal small businesses by e.g. decreasing the registration procedures, structuring the tax system, and increasing the effectiveness of the registration system (Kappel and Ishengoma, 2006). However, there is still a gap in knowledge about the differences between firms and entrepreneurs from the formal sector and firms and entrepreneurs from the informal sector in SSA. This PhD thesis aims to address that research gap.

An example of a SSA country where the informal sector is substantial is Tanzania. The informal sector employs about 31.2 percent of the total number of entrepreneurs in Tanzania (United Republic of Tanzania, 2014). Most informal entrepreneurs do not pay taxes, tend to have low levels of education, and do not keep accounting records. Furthermore, in contrast to entrepreneurs in advanced economies who tend to innovation (Kirzner, 1997; Schumpeter, 1934), entrepreneurs in Tanzania are not very innovative, tending to limit their roles to being in retailing and simple manufacturing and transport (United Republic of Tanzania, 2014). This means that these entrepreneurs may differ from those in advanced economies in terms of their identification and exploitation of entrepreneurial opportunities, their competencies and motivations.

A pertinent question is, given the potential benefits of formalization, why so few small businesses in a country such as Tanzania decide to enter the formal sector? For instance, only 4 percent of the entrepreneurs from the informal sector have formalized their businesses in Tanzania in the period 1996/97-2011/12 (United Nations Industrial Development Organisation, 2012).

The apparent reluctance of small businesses to enter the formal sector in Tanzania requires further study. Therefore, this PhD thesis intends to respond to the following scientific overarching research question:

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To what extent are the entrepreneurs of small businesses in the formal sector different from those of small businesses in the informal sector in a least developed country, such as Tanzania?

1.2 Research questions

To answer this scientific overarching research question this PhD thesis contains five empirical chapters each answering a sub-question of the above research question.

- In Chapter 2 the research question is: What is the extent of differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in a least developed country, such as Tanzania? (see Section 1.2.1).

- In Chapter 3 the research question is: What is the extent of differences in terms of growth between firms in the formal and informal sectors in a least developed country, such as Tanzania? (see Section 1.2.2).

- In Chapter 4 the research question is: What are the differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors in a least developed country, such as Tanzania? (see Section 1.2.3).

- In Chapter 5 the research question is: What are the factors that motivate entrepreneurs in the informal sector to formalize their business in a least developed country, such as Tanzania? (see Section 1.2.4).

- In Chapter 6 the research question is: What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania? (see Section 1.2.5).

Chapters 2, 3, 4 and 5 are based on quantitative studies while Chapter 6 is based on a qualitative study. Each of the five research questions listed above are motivated in the sub-sections 1.2.1 to 1.2.6 below.
1.2.1 Identification and exploitation of entrepreneurial opportunities

The concept of entrepreneurship can be traced back to the eighteenth century where it was associated with individuals doing businesses under uncertainty and risk (Long, 1983). Later, due to advances in knowledge, the term entrepreneurship became widely used to cover different meanings depending on the application and purposes of the study (Salgado-Banda, 2007). According to Peneder (2009), entrepreneurship can be categorized into branches of economic, occupational and behavioural aspects. He further explained that the behavioural theory of entrepreneurship is focused on the pursuit and exploitation of entrepreneurial opportunities. Basically, scholars describe the pursuit and exploitation of entrepreneurial opportunities as the heart of entrepreneurship (Korsgaard, 2011) where an individual can identify opportunities based on three different approaches, as is explained below.

First, an individual is said to identify an opportunity when the supply and demand opportunities existing in the market are strategically linked together (Sarasvathy et al., 2010). In this regard, an opportunity is found to exist in a perfect competitive market where a large number of sellers and buyers have the same information about the market (Sarasvathy et al., 2010). Hence, the entrepreneurial opportunity is identified through either accumulation of knowledge or acquisition of more information that is converted into useful knowledge about the market (Lumpkin and Lichtenstein, 2005), or through noticing the gap between supply and demand in the market (Sarasvathy et al., 2010).

The second approach is when an individual identifies an opportunity through discovery (Corbett, 2007). This is where either the demand side or the supply side of the market exists (Sarasvathy et al., 2010), waiting for the other side to be discovered, by lucky and alert individuals (Tang et al., 2012). Scholars have established that possession of prior information and cognitive knowledge are influential factors for discovering entrepreneurial opportunities (Shane and Venkataraman, 2000). The knowledge is gained from prior activities committed by the individuals (Shane, 2000), from the ability to interpret a framework, and from the stock of knowledge in everyday life (Yu, 2001). In other words, people with good education, experience, and necessary skills have more ability to identify and exploit entrepreneurial opportunities than others (Clausen, 2006; Grable, 2015). Amongst others, this has to do with the level of alertness which is important in detecting signals of opportunities (Ko, 2012).
The third approach of identifying an opportunity is where an individual is capable of creating both supply and demand sides that do not exist in the market (Sarasvathy et al., 2010). The entrepreneurial opportunity is identified through the idea created by the individual (Alvarez and Barney, 2007), built from linking cognitive knowledge about what should be produced and/or supplied, and external environment about what is needed and/or demanded (Mol et al., 2015; Oyson and Whittaker, 2010). Then, the output of the interaction between cognitive knowledge and external environment sends feedback to the individual as to whether the idea is an opportunity or something different (Wood and McKinley, 2010). Hence, identification of entrepreneurial opportunities in this approach is referred to as a process (Ardichvili et al., 2003; Corbett, 2005; Alsos and Kaikkonen, 2011), that includes: opportunity identification, opportunity development, opportunity recognition (perception, discovery, creation) and opportunity evaluation. Therefore, the process in the view of opportunity creation accommodates both opportunity recognition and opportunity discovery (Renko et al., 2012).

Shane (2003) indicates that the process of exploitation of entrepreneurial opportunities is not done in a vacuum, rather it is implemented through the creation of a new firm (Choi and Shepherd, 2004). One of the preferred firm structures used by entrepreneurs (also referred to as the owner-managers in this PhD thesis) for exploitation of entrepreneurial opportunities is the creation of a small business because of its flexibility, dynamism and easy adaptability to the environment (Petkovska, 2015).

Researchers (see Tonoyan et al., 2010) classify entrepreneurs of small businesses into entrepreneurs in the formal and informal sectors. Owner-managers in the formal and informal sectors are said to possess different features in terms of (amongst others) institutional, behavioural, and social-economic perspectives (Nelson and De Bruijn, 2005). For example, in explaining differences in economic perspective, Rand and Torm (2012) conducted a study to examine the wage differential between the formal and informal sectors in Vietnam. In this study they found that, on average, entrepreneurs in the formal sector pay wages between 10 percent and 20 percent more than entrepreneurs in the informal sector. The percentages above show that owner-managers in the formal sector are able to attract more people to be employed than owner-managers in the informal sector. Similarly, for India, Kathuria and Raj (2013) found that entrepreneurs in the formal sector are more efficient in terms of production than the entrepreneurs in the informal sector.
sector. Admittedly, not much has been done about the heart of entrepreneurship, that is, identification and exploitation of entrepreneurial opportunities, particularly in LDCs. Therefore, Chapter 2 of this PhD thesis intends to answer the following research question:

*What is the extent of differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in a least developed country, such as Tanzania?*

Scholars are divided about the recognition of entrepreneurs in the informal sector. The advocates of the informal sector (Sparks and Barnett, 2010) argue that the sector contributes a large share to the economy and that the majority of the entrepreneurs in the informal sector participate in poverty reduction activities. Therefore, the debate about the recognition of entrepreneurs in the informal sector is meaningless. Conversely, the arguments are outweighed by the fact that the majority of the entrepreneurs in the informal sector do not pay taxes, are illiterate and produce counterfeit products. Chapter 2 intends to provide more evidence about the differences between entrepreneurs in the formal and informal sectors in terms of identification and exploitation of entrepreneurial opportunities. To answer the research question, the researcher conducted a survey on 50 entrepreneurs in the formal sector and 61 entrepreneurs in the informal sector in the furniture industry in Dar Es Salaam (Tanzania).

1.2.2 Differences between firms in the formal and informal sectors in terms of growth

The ability of an entrepreneur to identify and exploit entrepreneurial opportunities is influenced by (amongst others) the development of entrepreneurial competencies. Definitely, the entrepreneurial competencies have an impact on the growth of small businesses. Scholars have found that the growth of small businesses is also influenced by non-economic factors which include: owner-managers’ motivation for growth, previous experience, level of education, and

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4 The study will use growth as a performance measure because of the following reasons; first, data about growth can easily be accessed from accounting documents and financial reports, and, second, growth is a more practical indicator of empirical studies than other indicators (Delmar et al., 2003; Fadahunsi, 2012). Nevertheless, this PhD thesis acknowledges the counter arguments of scholars related to firm growth as a performance measure, namely that: (i) firm growth can be measured with different methods, and therefore, offering different outputs and explanations, (ii) firm growth is affected by firm size, firm age, type of governance of the firm and the type of industry the firm acts in, and (iii) firm growth is not static in nature, therefore, it impairs the ability of scholars to accumulate and compare results.
management skills (see, e.g., Fadahunsi, 2012; Wiklund et al., 2003). These factors help entrepreneurs to keep control of business operations, enable them to create an attractive internal environment for innovative employees and to survive external environmental changes (Wiklund et al., 2003). Certainly, the skilled employees convert the know-how into enterprise output (Coad and Tamvada, 2012) so that the enterprise goal is met (Wiklund et al., 2009). In this respect, innovative employees are perceived to influence the growth of the firm (Pagano and Schivardi, 2003).

In LDCs, however, the situation is quite different from that in advanced economies; the majority of the owner-managers from small businesses possess few management skills, are constrained with lack of finance and poor infrastructure (such as electricity and technology) and often have to deal with corruption (Okpara and Kabongo, 2009; Webb et al., 2013; Delalić and Oruč, 2014). As a result, the majority of firms in LDCs fade away and only few survive and meet employment growth objectives (Mead, 1994). Therefore, Chapter 3 of this PhD thesis provides an answer to the following research question:

What is the extent of differences in terms of growth between firms in the formal and informal sectors in a least developed country, such as Tanzania?

To answer this research question, data were used from the same sample as with Chapter 2 (50 entrepreneurs from the formal and 61 entrepreneurs from the informal sectors in the furniture industry in Dar Es Salaam, Tanzania).

1.2.3 Differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors

The term ‘competence’ is defined by the Oxford English Dictionary (OED) as ‘the ability to do something well’. That means, person’s ability or skills and knowledge possessed to do something successfully and efficiently. On the other hand entrepreneurial competencies are knowledge and skills along with experience and other attributes necessary for undertaking entrepreneurship activities (https://www.differencebetween.com/difference-between-competence-and-vs-competency/). Mitchelmore and Rowley (2010) considered entrepreneurial competencies as essential personal attributes that play an important role in shaping the behaviour of an entrepreneur.
for the success of small businesses. Entrepreneurs are considered to benefit from entrepreneurial competencies especially when knowledge, skills, and technology are updated (Tiwari, 2011; Jakšić and Jakšić, 2012), so that resources are mobilized for innovation (Minello et al., 2014) and a high level of competitive advantage is achieved (Boas et al., 2014). Krishnan and Kamalanabhan (2013) found that entrepreneurial competencies are important for economic growth and other success of the business. The added value of entrepreneurial competencies development (Lans et al., 2008) increases the production of goods or services, improves the capability of the entrepreneur to use modern and technological tools, build effective networks (Kiggundu, 2002) and expand market share (Ismael and Muhamed, 2013). Further, the entrepreneurial competencies create innovative leadership skills to owner-managers (Bagheri and Lope Pihie, 2013) and hence, innovative business culture to all the employees in the firm (Chaifetz, 2010). In short, entrepreneurs who develop entrepreneurial competencies are more successful than those who do not (Lazányi, 2014). Therefore, Chapter 4 of this PhD thesis answers the following research question:

What are the differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors in a least developed country, such as Tanzania?

To answer this research question, a field study was conducted among 80 entrepreneurs from the formal sector and 90 entrepreneurs from the informal sector in the construction industry in four different regions in Tanzania (viz. Dar Es Salaam, Mbeya, Mtwara and Singida).

1.2.4 Factors motivating entrepreneurs in the informal sector to formalize their businesses

Generally, it can be said that entrepreneurial motivation has an impact on the owner-manager’s capacity and strength to undertake more risky entrepreneurial activities (Liao et al., 2001; Swierczek and Thai, 2003). For example, an entrepreneur motivated to utilise an opportunity, i.e. being pulled into business, may be more committed to society, to employees, to consumers, to the environment and to other contractual parties (Nelson and De Bruijn, 2005).

Formalization is explained as a benefit enjoyed by entrepreneurs in the formal sector. Entrepreneurs in the formal sector act as an instrument for technical change, and can be seen as initiators and catalysts of innovation (Roper, 1997). They enjoy a wide scope of networking through advertisement, participating in national and international trade exhibitions, and improved
information collection channels (Kawakami et al., 2012). In addition, formalization creates a relationship between entrepreneurs and stakeholders, including creditors, bankers, suppliers, customers and governments (Holmes and Zimmer, 1994). Furthermore, formalization provides small businesses with legal existence and thus the owner-managers benefit from amongst others access to finance, financial success, freedom from government, networking, recognition, self-realization, societal commitment, business expansion and independence (Kumar, 2011; Robinson, 2014; Stefanovic et al., 2010; Turan and Kara, 2007; United Republic of Tanzania, 2008). Therefore, Chapter 5 of this PhD thesis answers the following research question:

What are the factors that motivate entrepreneurs in the informal sector to formalize their businesses in a least developed country, such as Tanzania?

The purpose of Chapter 5 is to determine which pull factors and push factors influence entrepreneurs in the informal sector to formalize their businesses. The study is based on a survey of 170 entrepreneurs in the informal sector in the tailoring industry in four regions of Tanzania (viz. Arusha, Dar Es Salaam, Dodoma and Tanga).

1.2.5 Findings from existing studies

Chapters 2, 3, 4, and 5 of this thesis are based on quantitative data and discuss different entrepreneurship topics. The topics include identification and exploitation of entrepreneurial opportunities, firm growth, development of entrepreneurial competencies, and entrepreneurial motivation. Chapter 6 is an extension of the subjects discussed in Chapters 2 to 5, and provides practical explanations of the findings observed from the previous chapters. Therefore, Chapter 6 of this PhD thesis aims to answer the following research question:

What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania?

The research question in Chapter 6 is answered qualitatively based on a focus group with six experts from the Property and Business Formalization Programme (PBFP), popularly known in Swahili as Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania (MKURABITA); two senior officers, one from the Tanzania Chamber of Commerce, Industry and
Agriculture (TCCIA) and the other from the Business Registration Licensing Agency (BRELA); and finally, fifteen owner-managers from the informal sector.

1.3 Research methodology

1.3.1 Conceptual framework

The conceptual framework of this study considers entrepreneurs in the formal and informal sectors in two stages. First, the study explores the differences between entrepreneurs in the formal and informal sectors in terms of identification and exploitation of entrepreneurial opportunities, firm growth, and entrepreneurial competencies. The literature suggests that entrepreneurs in the formal sector identify and exploit entrepreneurial opportunities more than the entrepreneurs in the informal sector; firms in the formal sector more often show growth than firms in the informal sector; and entrepreneurs in the formal sector develop entrepreneurial competencies more than is the case with entrepreneurs in the informal sector. Secondly, the study identifies the possibility for the entrepreneurs in the informal sector to shift to the formal sector (that means the factors that motivate entrepreneurs from the informal sector to formalize their businesses), and finally the factors determining the entry and stay of entrepreneurs in the informal sector are investigated.

1.3.2 Research philosophy

Research philosophy ‘relates to the development of knowledge and the nature of that knowledge in a particular field’ (Saunders et al., 2011, p. 107). Research philosophy contains the assumption about the way the researcher views the world, supports the research strategy and the methods applied on a study (Saunders et al., 2011). Thus, the adopted philosophy indicates the relationship between the process by which knowledge is developed and gained. Amongst the philosophies that dominate the social science researches are positivism, interpretivism and realism. Positivism is adopted from the natural sciences that observe the principles recognising the social world to exist externally and to be viewed objectively. Thus, research is taken as value free and independent from the researcher (Blumberg et al., 2008). Through this philosophy, the researcher is able to compile quantifiable information and analyse the information statistically (Saunders et al., 2011).

Conversely, the interpretivism approach views reality based on meanings and understanding of the social actors. This philosophy is centred on the basic principles of recognising the constructed
social world that is given meaning subjectively (Saunders et al., 2011). Therefore, the researcher becomes part of what is observed, and is more interactive and participatory in the study. It is this philosophy that helps people to understand complex phenomena by giving meaning, develop new knowledge and interpret findings (Blumberg et al., 2008).

As for realism, the philosophy adopts both the positivism and interpretivism assumptions (Blumberg et al., 2008). The philosophy ‘accepts the existence of reality independent of human beliefs and behaviour’ (Blumberg et al., 2008, p. 22). That means, what we see is the accurate image of the world (Saunders et al., 2011). In this regard, realism supports the positivism philosophy. On the other hand, realism supports the philosophy of interpretivism by acknowledging people’s understanding and their behaviour (Blumberg et al., 2008), because it is based on the meaning and sensations that reflect objects (Saunders et al., 2011). It is apparent that this PhD thesis is supported by the realism philosophy based on the type of data collected and interpretation of the meaning. For data related to the measurement of growth, the PhD thesis adopts positivism due to the fact that the data were available from the firms and analysed statistically.

Similarly, in this study expert interviews were used to gain more understanding of the concepts of identification and exploitation of entrepreneurial opportunities, entrepreneurial competences development, and entrepreneurial motivation, followed by the interviews with owner-managers from different economic activities. At that stage of the survey, owner-managers expressed their level of agreement on a 5-point Likert scale. That means, the respondent’s scores were dependent on the understanding of the concepts, which signifies the adoption of interpretivism. Indeed, it can be concluded that the realism philosophy was adopted to bridge the gap between the two philosophies (and thus this PhD thesis adopts a mixed-model research, that is, qualitative data were converted into numerical codes and analysed quantitatively). In this way, the researcher was able to address the research questions appropriately.

1.3.3 Research approaches

The scientific literature has identified two research approaches, namely deductive and inductive. The deductive approach involves development of a hypothesis or hypotheses based on the existing theory, then the hypothesis or hypotheses is or are subjected to testing (Saunders et al., 2011). Therefore, it is an approach that could explain a causal relationship between variables (Saunders et al., 2011, p.124), and the conclusion should be drawn from the theory given (Blumberg et al.,
In contrast, the inductive approach has the opposite relationship. It draws conclusions from facts or evidence collected of which the conclusion explains the facts and the facts support the conclusion (Blumberg et al., 2008, p. 26).

The literature suggests that any approach chosen should be adapted to the study environment (see e.g Saunders et al., 2011). In this study, literature explaining identification and exploitation of entrepreneurial opportunities, firm growth, entrepreneurial competences development, and entrepreneurial motivation was obtained from the advanced economies, and thus directed the researcher to use the deductive approach. Since the literature used is applied to an LDC (i.e. Tanzania), where secondary data on small businesses (from the formal and informal sectors) were hardly readily available, the researcher involved interviews to arrive to conclusions, and therefore adopted an inductive approach. In short, by using a combined approach the researcher was able to answer the research questions appropriately.

1.3.4 Research strategies

Social science offers various research strategies and the application depends on the research question(s) and research objective(s), the extent of existing knowledge, sources of available data and the amount of time available (Saunders et al., 2011, p.141). Although the researcher of this PhD thesis used expert interviews at the initial stages of the study to gain understanding of the concepts, the major part of this PhD thesis is based on a survey strategy. Basically, the survey method allows quantitative data to be collected economically; it is easy to understand and to explain possible reasons for the results or particular relationships; it is also possible to generate findings; and it is an appropriate method where secondary data are lacking (Blumberg et al., 2008, p. 278; Saunders et al., 2011, p.144). In this regards, the survey solves challenges of unavailable secondary data related to firms from the formal and informal sectors in most LDCs.

1.3.5 Research survey

The major part of this study relies on surveys. The survey method is applied to the exploratory and descriptive studies intending to answer ‘what’, ‘how much’, ‘where’, ‘who’ and ‘how many’ questions (Saunders et al., 2011). Also, the method enables the researcher to collect a large amount of information using administered questionnaires which can be used to suggest reasons for the
differences between the formal sector and the informal sector on the basis of the topics from
different chapters of this PhD thesis.

1.3.6 Sampling technique

Literature (e.g. Saunders et al., 2011) acknowledges two types of sampling techniques namely
probability sampling and non-probability sampling. Probability sampling is a technique that gives
a chance to every member in a population of being selected. Thus, the researcher can generalize
conclusions from the sample in answering the research questions (Saunders et al., 2011, p.214).

In contrast, non-probability sampling is the sampling technique that allows subjective judgment.
It is mostly applied in a situation where the researcher is facing challenges of limited resources
and unable to determine a sampling frame (Saunders et al., 2011).

In Chapters 2, 3, 4, 5 and 6 of this PhD thesis, the researcher adopted a non-probability sampling,
particularly quota sampling, because of the following four reasons: (i) it is a sampling technique
that is commonly applied in Tanzania (see Isaga 2012, p.79), (ii) the researcher’s efforts to
establish a sampling frame for the formal sector and for the informal sector failed due to unreliable
databases in Tanzania, (iii) through quota sampling, the sample size was established using the
available resources so as to meet the research objectives (Saunders et al., 2011), and (iv) by using
quota sampling, the researcher grouped data into the formal sector and the informal sector
(Saunders et al., 2011) and selected cases from different regions (viz. Arusha, Dar Es Salaam,
Dodoma, Mbeya, Mtwara, Singida, and Tanga).

Quota sampling is a non-random technique that acknowledges data collection within the groups
identified. Saunders et al. (2011, p. 235) identify four steps to be followed when using quota
sampling, namely: to divide the population into specific groups, to calculate quota based on the
availability of data, to state the number of cases in each quota, and to combine data collected to
provide a full sample. In the current study, the data were collected from seven regions as shown in
Table 1.1.
Table 1.1 Sample distribution

<table>
<thead>
<tr>
<th>Chapter</th>
<th>No. of small businesses from the formal sector</th>
<th>No. of small businesses from the informal sector</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dar Es Salaam</td>
<td>Mbeya</td>
<td>Singida</td>
</tr>
<tr>
<td>2</td>
<td>50</td>
<td>61</td>
<td>111</td>
</tr>
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<td>3</td>
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</tr>
<tr>
<td>6</td>
<td>15</td>
<td></td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>397</strong></td>
<td><strong>577</strong></td>
</tr>
</tbody>
</table>

Chapter 2 and Chapter 3 are based on the same sample

1.3.7 Data collection

Data used in this PhD thesis was collected given the research questions described in Section 1.2. Therefore, the researcher conducted four different fieldworks to respond to the research questions as follows.

The first fieldwork was conducted on the differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities; and the differences between firms in the formal and informal sectors in terms of growth. The fieldwork involved a survey in the furniture industry in the Dar Es Salaam region.

The second fieldwork investigated the differences between entrepreneurs in the formal and informal sectors in terms of their competencies. Four regions, namely Dar Es Salaam, Mbeya, Mtwara and Singida were surveyed, targeting the construction industry. The third fieldwork was
on factors motivating owner-managers from the informal sector to formalize their businesses. Data were collected from the tailoring industry in Arusha, Dar Es Salaam, Dodoma and Tanga. The fourth and final fieldwork explored the factors determining the entry and remain of entrepreneurs in the informal sector and data were collected from Dar Es Salaam. Figure 1.1 is a map of Tanzania which indicates the regions circled with blue colour where the data collection took place.

*Figure 1.1 Data Collection Regions in Tanzania (circled blue)*
1.3.8 Data Processing and Data Analysis

Data processing involves data entry, data screening, data cleaning, checking for missing data and manipulation of the data before the data analysis. After each fieldwork, respondents’ information was entered in the computer using SPSS software for data processing. Then, data analyses were performed based on the research question under investigation.

In this regard, Chapter 2 where the purpose was to investigate the extent of the differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities, descriptive statistics and the Chi-Square Test were applied. Chapter 3 used the Chi-Square Test and the Compounded Annual Growth Rate (CAGR) to investigate differences between firms in the formal and informal sectors in terms of growth. Chapter 4 applied T-Tests in order to gain more understanding of the extent of the differences between entrepreneurs in the formal and informal sectors in terms of their competencies. T-Tests and Principal Component Analysis were used in Chapter 5 to determine factors motivating the shift from the informal sector to the formal sector. Finally, in Chapter 6, keywords-in-context analysis, content analysis, and taxonomy analysis were applied to determine the factors motivating entry and remain of entrepreneurs in the informal sector.

1.3.9 PhD thesis output

In this PhD thesis, Chapters 2 to 6 each correspond to an empirical paper that is either under review or published. Each chapter is self-contained and deals with a different subject that responds to the main research question “to what extent are the entrepreneurs of small businesses in the formal sector different from the entrepreneurs of small businesses in the informal sector in a least developed country, such as Tanzania?”. Therefore, to a little extent certain overlap and repetition in chapters of this PhD thesis might occur. Table 1.2 below provides a summary of the seven chapters and the current status of the five papers in terms of conference presentation and publications.
Table 1.2 Summary of chapters

<table>
<thead>
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<th>Chapter 1</th>
<th>Title</th>
<th>Introduction</th>
</tr>
</thead>
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<tr>
<td>Chapter 2, Paper One</td>
<td>Paper title</td>
<td>Differences between formal and informal sector entrepreneurs in identifying and exploiting opportunities</td>
</tr>
<tr>
<td>Author</td>
<td>Gorah K. Abdallah</td>
<td></td>
</tr>
<tr>
<td>Conference presentation</td>
<td>2nd International Conference on Business and Economics-22-23 October 2014, Padang, Indonesia</td>
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</tr>
<tr>
<td>Status</td>
<td>Published</td>
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</tr>
</tbody>
</table>

| Chapter 3, Paper Two | Paper title | Differences between formal and informal sector entrepreneurs in terms of growth of their firms |
| Author | Gorah K. Abdallah |
| Status | Published |

| Chapter 4, Paper Three | Paper title | Differences between formal and informal sector entrepreneurs in terms of their competencies |
| Author | Gorah K. Abdallah |
| Conference presentation | The International Conference on International Business (ICIB 2015) held 22-24 May 2015 in Thessaloniki, Greece |
| Status | Published |

| Chapter 5, Paper Four | Paper title | Factors motivating entrepreneurs in the informal sector to formalize their business |
| Author | Gorah K. Abdallah |
| Status | Under review with the Journal of African Business. |

| Chapter 6, Paper Five | Paper title | Owner-managers’ choices to enter and remain in the informal sector: Evidence from Tanzania |
| Author | Abdallah, G. K., & Eijdenberg, E. L. |
| Status | Published |

| Chapter 7 | Title | Conclusions |
Chapter 2

Differences between formal and informal sector entrepreneurs in identifying and exploiting opportunities

2.1 Introduction

The identification and exploitation of entrepreneurial opportunities is a key area of study in the field of entrepreneurship (Acs et al., 2008; Manev and Manolova, 2010; Smith et al., 2009; Tang et al., 2012).

Exploitation of entrepreneurial opportunities underpins the creation of new customer groups, new production processes, new products, and detects market disequilibrium and ways of organizing uncoordinated parts (Shane 2000). As a consequence, it contributes significantly to technological advancement, generating employment, creating jobs and reducing poverty (Vandenberg and Creation, 2006; Naudé, 2008; Kongolo, 2010). Scholars, e.g. Shane (2000); Ucbasaran et al. (2008); Ucbasaran et al. (2009); Fatima et al. (2011) and Arentz et al. (2013), observed that entrepreneurs with higher human capital profiles such as prior business ownership, education and work experience, prior knowledge, and social networks identify more entrepreneurial opportunities, and exploit better quality opportunities because they have more opportunities to choose from (Ucbasaran et al., 2008).

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5 This chapter was originally part of Gorah Abdallah’s Master of Philosophy (MPhil) thesis, specialization Entrepreneurship, 2012-2015, at the Maastricht School of Management. The first version of this topic was later developed into a paper that was presented to a conference held between October 22-23, 2014, and published as: Abdallah, G.K. (2014). Differences between entrepreneurs from the formal sector and informal sector in identifying and exploiting entrepreneurial opportunities: Empirical evidence from Tanzania. *Entrepreneurship and creative economy in global competitiveness*. Proceedings of the 2nd International Conference on Business and Economics, (p. 162), Padang, West Sumatera, Indonesia. The chapter in this PhD thesis is based on the published paper with minor textual adjustments to fit the chapter within the PhD thesis.
Despite its importance, the identification and exploitation of entrepreneurial opportunities are mostly studied in advanced economies (Baron, 2006; Choi et al., 2008; Eckhardt and Shane, 2003; Kirzner, 1997; Shane, 2003), where the concept is related to the entrepreneurs possessing a range of human capital profiles (Davidsson and Honig, 2003; Shepherd and DeTienne, 2005). Until fairly recently, many scholars were concerned about the relatively lack of studies in top entrepreneurship journals dealing with entrepreneurship in LDCs (Naudé, 2008; Webb et al., 2009, 2013). In these countries, most entrepreneurs are in the informal sector (Abdallah and Eijdenberg, 2019; Becker, 2004; Eijdenberg, 2016; Gerxhani, 2004) as opposed to advanced economies where the formal sector is dominant. Therefore, it is important to understand whether the formal sector or the informal sector identifies and exploits more entrepreneurial opportunities in LDCs. Thus, this chapter aims to answer the following research question:

What is the extent of differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in a least developed country, such as Tanzania?

The current study is expected to add to the existing literature on entrepreneurship about the extent of differences between the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in LDCs. While other studies (e.g. Smith et al., 2009; Ucbasaran et al., 2008; 2009; Vasilchenko and Morrish, 2011; Welpe et al., 2012) focussed on the factors determining identification and exploitation of entrepreneurial opportunities, the findings of the current study are intended to provide evidence to the policy-making personnel regarding the formal and informal sectors in identifying and exploiting entrepreneurial opportunities, and then suggest on the policies related to the two sectors.

Further, it is recognised that entrepreneurs in the formal sector are more developed in identifying entrepreneurial opportunities, and the entrepreneurs in the informal sector have effectively contributed to the economic development in LDCs (Bruce et al., 2009; Neumark et al., 2011; Wit and Kok, 2014).

The size of identified entrepreneurial opportunities may not necessarily be the same as the number of exploited entrepreneurial opportunities. Therefore, in this study, the factors hindering the exploitation of identified opportunities will be explored and extensively discussed, how they affect the exploitation process in LDCs.
The remainder of this chapter includes, first of all, a review of the literature on the identification and exploitation of entrepreneurial opportunities. Next, the difference between the formal and informal sectors is discussed, where three approaches are used to distinguish the formal sector and the informal sector. Then, the hypotheses are presented, followed by the details of the fieldwork. After that, the hypotheses are tested and the results are discussed in detail. The paper ends with concluding remarks.

2.2 Literature review

2.2.1 Identification and exploitation of entrepreneurial opportunities

An entrepreneurial opportunity can be defined as a situation in which an entrepreneur can create a new means-ends framework from resource recombination that is believed to yield a profit (Shane, 2003; Zanella et al., 2019). This new framework generates new business ideas that involve the manufacturing of different products, new production processes and discovering new ways of organising (Shane, 2012). In short, resource recombination is considered to produce either fundamental change or an incremental modification of products, production processes and ways of organising (Shane, 2012). As a result, by exploiting identified entrepreneurial opportunities, the entrepreneur influences changes in technology, consumer preferences, social norms, etc. (Dees, 1998). The resource recombination is considered as a means of generating profits from new relationships rather than optimisation (Shane and Venkataraman, 2000), and a way of creating new economic value (i.e., gain) that previously has never been exploited and is not currently being exploited by other entrepreneurs (Baron, 2006; Wang et al., 2019).

The concept of entrepreneurial opportunities is related to the ability of the entrepreneur to use idiosyncratic information available to create different images. The differences in the perception of information among entrepreneurs (Shane, 2000) is considered to originate from either divergence of sources of information or different ways of understanding the information (Drucker, 2002; Holcombe, 2003). Burg et al. (2012) categorised these sources of information from supply and demand market opportunities. The term market is used here to explain the composition of suppliers and consumers having different information (Hayek, 1945) that bring the real world into equilibrium (Kirzner, 1997).
For example, when the market supply is concerned, opportunities are identified as changes in resources available among competitors, market disequilibrium between supply and demand, changes in production processes, industry and market changes and changes in the number of suppliers in the market (Eckhardt and Shane, 2003; Holcombe, 2003). Similarly, demand opportunities are observed to be technological changes, political and regulatory changes, social and demographic changes, changes in customer perception and new knowledge (Drucker, 2002; Shane, 2003). Entrepreneurs who are able to distinguish opportunities from any of these sources (supply and demand market opportunities) and match them with resources meet the requirements that are associated with the process of identification (Renko et al., 2012) in two ways. First, they embed economic with social contexture in the local surroundings that contributes maximum value to stakeholders (Jack and Anderson, 2002), and, second, they can identify more future entrepreneurial opportunities (Bhave, 1994; Quaye and Mensah, 2019).

The term exploitation of opportunity refers to building efficient, full-scale actions of committing resources for products or services that were created or derived from identified entrepreneurial opportunities (Choi et al., 2008). Notably, opportunity exploitation can be achieved through efficient production processes, the implementation of a new means-end framework and the execution of a formulated plan (March, 1991). In this stage, the whole idea of entrepreneurial identification is converted into a reality (Schwartz and Teach, 2000). In fact, the process of exploiting an identified entrepreneurial opportunity is influenced by the nature of the occasion itself, viz. to generate high expected value and individual differences (Shane and Venkataraman, 2000). The social gaps include financial capital, information about skills and knowledge, work experience in related fields, perception, optimism, self-efficacy, social network and emotions (Shane and Venkataraman, 2000; Fuentes et al., 2010; Vasilchenko and Morrish, 2011; Welpe et al., 2012).

For example, the dispersion of skills and knowledge between people and between places (Dew et al., 2004) distinguishes the entrepreneurs’ abilities in meeting customers’ needs (Chaston et al., 2004). The result is that people with high skill careers are better able to exploit entrepreneurial opportunities through meeting customer demands for new products, and through developing necessary processing technologies, and they are better in managerial activities (Choi and Shepherd, 2004). Hence, it is recognised that entrepreneurs with a high level of human capital create more
customers by linking social capital (external environment) with cognition (internal factors) (De Carolis and Saparito, 2006).

2.2.2 Differences between the formal and informal sectors

While there is no common definition of what constitutes a “formal” or “informal” sector, (Peattie, 1987; Ulyssea, 2010) scholars have broad agreement that the formal sector and the informal sector can be distinguished from at least three different perspectives: a social-economic perspective, a behavioural perspective, and an institutional perspective (Nelson and De Bruijn, 2005).

In terms of the socio-economic perspective, firms from the informal sector are considered to be small in size, family owned, relying on indigenous resources, low in technology, little possibility to become self-employed, and having no proper wage agreements (Bangasser, 2000; Bigsten et al., 2000; Eijdenberg & Borner, 2017; Williams et al., 2009; Fortin et al., 1997; Kiggundu, 2002; Mutalemwa, 2009; Okpara and Kabongo, 2009; Swaminathan, 1991; Williams, 2014). These characteristics explain what may be regarded as one of the weaknesses of firms from the informal sector (Williams and Nadin, 2012), namely that they are labour intensive, instead of capital intensive (Rauch, 1991). As a result, they have higher transaction costs, they are unable to benefit from economies of scale, and they have low social welfare and low labour productivity (Ferreira-Tiryaki, 2008; Taymaz, 2009; Ulyssea, 2010). Firms from the formal sector, on the other hand, are run by qualified entrepreneurs who aim to meet public services such as courts of law, army, and police through tax payment and maintaining the quality of services/products for customers (Khayesi et al., 2014; Prado, 2011; Williams, 2014).

In terms of the behavioural perspective, the majority of the entrepreneurs from the informal sector establish firms because of lack of choice (Hechavarria and Reynolds, 2009, p. 418; Koop et al., 2000). So, the entrepreneurs are pushed by necessity motivation to the informal type of businesses (Liñan et al., 2013). The identified push drivers include poverty or economic vulnerability, unemployment, children care, lack of or dissatisfaction with a job, and redundancy amongst others (Abdallah and Eijdenberg, 2019; Cromie, 1987; Eijdenberg and Masurel, 2013; Garba et al., 2013; Williams and Williams, 2012). Interestingly, firms from the formal sector are established by entrepreneurs pulled by opportunity motives, such as to become independent, to increase personal/family income, to fill the gap in the market, and to meet challenges (Aziz and Ayvaz,
2014; Williams and Williams, 2012), so that higher level of success and growth can be achieved (Rahman and Rahman, 2011).

Finally, the institutional perspective defines the informal sector as operating outside the government regulatory system (Eijdenberg et al., 2019; Webb et al., 2013). Entrepreneurs in the informal sector conceal business operations to avoid taxes from government authorities (Mattos and Ogura, 2009). The risk of detection by the tax officials is viewed to be low compared to the cost of time and income spent on formalizing firms from the informal sector (Sookram and Watson, 2008; Eijdenberg et al., 2019). As a consequence, entrepreneurs in the informal sector enjoy low public trust due to inferior goods or services, lack of access to resources (land, credits, etc.), penalties once caught, and the weak rule of law (Ulyssea, 2010). Additionally, they lack financial benefits, like the possibility to purchase materials on credit, to borrow from formal financial institutions, and to cash discounts (Khavul et al., 2009; Ngiba et al., 2009).

In contrast, firms in the formal sector are recognised by the regulatory framework. They have access to public goods and services (e.g., electricity, roads, and water) through the protection of the state organs and property rights, and they have better access to financial entities (Straub, 2005). As a result, formal entrepreneurs can meet customer needs better in terms of quality and quantity (Ihrig and Moe, 2004) and are more efficient (Kathuria and Raj, 2013) in terms of business planning (Baird et al., 1994).

2.2.3 The formal and informal sectors in Tanzania

In Tanzania, the best approach that can be used to distinguish between the formal sector and the informal sector is the institutional perspective (Nelson and De Bruijn, 2005). Firms in the informal sector operate outside the legal framework and are not registered in the official documents (United Republic of Tanzania, 2008a). Instead, their operations are covered under the umbrella policy of business licenses issued by the local authorities (Nelson and De Bruijn, 2005). Additionally, many of them are household enterprises, not keeping books of accounts and employing only a few workers (Pfander and Gold, 2000). As a result entrepreneurs in the informal sector are working in isolation from each other; are more undeveloped and operate within the casual environment (United Republic of Tanzania, 2008a). In contrast, entrepreneurs in the formal sector follow the legal system by registering with the Business Registration and Licensing Agency (BRELA),
through which they gain legal status with the associated obligations and acts of compliance to government regulation (Nelson and De Bruijn, 2005). The document is the legal barrier that creates benefits for entrepreneurs in the formal sector as opposed to entrepreneurs in the informal sector in three main areas (United Republic of Tanzania, 2008b), namely property archetypes, business organisation archetypes and expanded market archetypes (United Republic of Tanzania, 2008a).

First, with regard to the property archetypes, enterprises in the informal sector are operating their businesses in the local areas only (United Republic of Tanzania, 2008a). This is because properties owned by entrepreneurs in the informal sector cannot be easily exchanged due to lack of official valuation reports and documents of ownership that can be presented in the court of law (United Republic of Tanzania, 2008a). As a consequence, the entrepreneurs in the informal sector are excluded from the right of access to capital by the formal financial institutions.

Second, the archetypes of the business organisation create a barrier of limited liability which affect many firms in the informal sector (United Republic of Tanzania, 2008a). The limited liability means there is no legal separation between the informal owner-managers and the enterprises. As a result, owner-managers are exposed to business risk (United Republic of Tanzania, 2008a). Additionally, they do not provide for the division of labour nor contracts between the enterprise and stakeholders (e.g., suppliers, clients, creditors, and investors) (United Republic of Tanzania, 2008a). Hence, stakeholders become reluctant to do business with entrepreneurs in the informal sector because their rights are not protected (United Republic of Tanzania, 2008a).

Concerning the archetypes of the expanded market, enterprises in the informal sector do not protect trade names and trademarks of their products and do not prepare financial statements (United Republic of Tanzania, 2008a). As a result, they fail to obtain credit outside the local area, they cannot operate in a broader jurisdiction and they do not promote their products and financial statements to different magazines and accounting journals respectively (United Republic of Tanzania, 2008c).

2.3 Hypotheses

Scholars acknowledge that identification and exploitation of entrepreneurial opportunities are important entrepreneurial processes for success and growth of an enterprise (Jarvis, 2015; Kuckertz et al., 2017). The processes of identification and exploitation of entrepreneurial
opportunities are associated with an entrepreneur having two important attributes; first, personal characteristics, and second, cognitive characteristics (Ardichvili et al, 2003; Shane, 2000). The personal characteristics, such as prior knowledge and business experience, are attributed with technology, social ties, and specialized training (Hanohov and Baldacchino, 2018). Cognitive characteristics are referred as mental structures of individual’s memories, perceptions, problem solving, decision making and reasoning mechanisms helping an entrepreneur to acquire new knowledge (Anderson, 1980; Bayon et al., 2016; Santos et al., 2010). Both the personal characteristics and the cognitive characteristics are associated more with entrepreneurs in the formal sector than with entrepreneurs in the informal sector because the former aim to meet market needs through creative recombination of resources (Ardichvili et al, 2003; Kuckertz et al., 2017). For example, the personal characteristics such as prior knowledge and business experience, tend to shape the mental structures of entrepreneurs in the formal sector on how the new information should be perceived and managed during the entrepreneurial process (Gordon and Schaller, 2014; Santos et al., 2010; 2015 Jarvis, 2016; Lewis, 2016; Wang et al., 2019; Żur, 2015). The existence of cognitive frameworks enable them to connect dots of seemingly unrelated patterns to become identified entrepreneurial opportunities (Santos et al., 2015). Indeed, the information processing skills and entrepreneurial alertness support entrepreneurs in the formal sector to acquire (search and scan), organize (connect) and interpret (evaluate and judge) information from different sources to become entrepreneurial opportunities (Hajizadeh and Zali, 2016; Tang et al., 2012). The attitude of entrepreneurs in the formal sector to continuously accumulate knowledge as well as screening aid them in the process of exploiting identified entrepreneurial opportunities (Ge et al., 2016; Zanella et al., 2019).

On the other hand, studies have found that the majority of the entrepreneurs in the informal sector are necessity-based (Williams et al., 2009; Adom and Williams, 2012) because they consider the motivation to be their last resort and primary means of livelihood (Günther and Launov, 2012). For this reason, entrepreneurs in the informal sector are not focusing on conceptualising ideas for exploiting the identified entrepreneurial opportunities in the same way as entrepreneurs in the formal sector do (Wood and McKinley, 2010). They exploit already identified opportunities and ventures on less risky businesses (Marinescu and Mircioi, 2019; Zanella et al., 2019). Thus, this chapter will test two hypotheses:
Hypothesis 1: Entrepreneurs in the formal sector identify more entrepreneurial opportunities than entrepreneurs in the informal sector.

Hypothesis 2: Entrepreneurs in the formal sector exploit more identified entrepreneurial opportunities than entrepreneurs in the informal sector.

2.4 Fieldwork

Fieldwork was conducted in the period October-December, 2012 in Dar Es Salaam, the largest city of Tanzania, where a large number of small businesses from both the formal and informal sectors are located. Before the actual fieldwork, potential stakeholders were contacted to gain more knowledge about the entrepreneurs from the formal sector and the entrepreneurs from the informal sector in Tanzania. First, two officers from the Ministry of Industry and Trade (MIT) (Department of SMEs) were interviewed, followed by officers from the Property and Business Formalisation Program (in Swahili MKURABITA) and one expert from BRELA.

Also, experts from the National Economic Empowerment Council (NEEC), who advised the fieldworker to visit the Tanzania Woodworking Federation (TAWOFE), were interviewed. In these meetings, it was found that there is no relevant and reliable database kept for firms from the formal sector and firms from the informal sector in Tanzania. Hence, the study adopted a non-probability sampling procedure. Similarly, qualitative interviews were conducted with twelve experts, six from Small Industries Development Organisation (SIDO) and six from MKURABITA about the way entrepreneurs identify and exploit entrepreneurial opportunities; and the barriers associated with exploitation in Tanzania.

Further, different approaches of identifying and exploiting entrepreneurial opportunities were discussed; and obstacles of exploitation from literature with both the experts from NECC and MKURABITA, in order to remain with a list of criteria appropriate to the Tanzania environment. Finally, we agreed upon which factors and barriers to be included in the questionnaire, based on the findings of a pilot study of ten entrepreneurs from the informal sector randomly selected from the furniture industry. The measurement instrument is shown in Table 2.1 below.
Table 2.1 Measurement instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Dimension (scale)</th>
<th>Origin of the item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic information</td>
<td><strong>What is your gender</strong>&lt;br&gt;(1. Male 2. Female)</td>
<td>Standard items</td>
</tr>
<tr>
<td></td>
<td><strong>What is your age group</strong>&lt;br&gt;(1. Below 20, 2. 21-30, 3. 31-40, 4. 41-50, 5. 51-60, 6. Over 60)</td>
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<td></td>
<td><strong>What is your marital status</strong>&lt;br&gt;(1: Married; 2: Unmarried/Single; 3: Widow/Widower; 4: Divorced; 5: Separated)</td>
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<td><strong>Please indicate the highest level of education you have successfully attained</strong>&lt;br&gt;(1: Never attended School; 2: Primary School; 3: Ordinary level Secondary School; 4: Advanced level Secondary School; 5: Certificate/Diploma; 6: Advanced diploma/Bachelor degree; 7: Master degree; 8: Other (specify))</td>
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<tr>
<td></td>
<td><strong>Have you attended any vocational training</strong>&lt;br&gt;(1: Yes; 2: No) If no, then go to Business characteristics</td>
<td></td>
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<tr>
<td></td>
<td><strong>Please indicate the category that describe the period you have received training</strong>&lt;br&gt;(1: This year; 2: 1 year ago; 3: 2 years ago; 4: 3 years ago; 5: 4 years ago; 6: 5 to 10 years ago; 7: Over the last 10 years)</td>
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<tr>
<td></td>
<td><strong>Please indicate the type of training obtained</strong>&lt;br&gt;(1: Tailoring; 2: Carpentry; 3: Food; 4: Civil/mechanical engineering; 5: Handicrafts; 6: Other (specify))</td>
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<tr>
<td></td>
<td><strong>Please indicate duration of the training attended</strong>&lt;br&gt;(1: Less than 1 year; 2: Between 1 and 2 years; 3: Between 2 and 3 years; 4: Between 3 and 4 years; 5: More than 4 years)</td>
<td></td>
</tr>
<tr>
<td>Business characteristics</td>
<td><strong>When was your business was established</strong>&lt;br&gt; (Year)</td>
<td>Standard items</td>
</tr>
<tr>
<td></td>
<td><strong>What is your main business activity</strong>&lt;br&gt;(1: Retail; 2: Service; 3: Whole sale; 4: Manufacturing; 5: Tailoring; 6: Other (specify))</td>
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<tr>
<td></td>
<td><strong>Please indicate type of ownership of your firm</strong>&lt;br&gt;(1: Sole Proprietorship; 2: Partnership; 3: Corporation; 4: Other (specify))</td>
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<tr>
<td></td>
<td><strong>Does the firm own a registered permanent address</strong>&lt;br&gt;(1: Yes; 2: No) If yes, indicate below&lt;br&gt; (1: Name of the firm; 2: Permanent address)</td>
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<tr>
<td></td>
<td><strong>Is the business premise/(s)</strong>&lt;br&gt;(1: Owned? Yes/No; 2: Hired? Yes/No; 3: Temporary? Yes/No)</td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th><strong>Business growth</strong></th>
<th><strong>Identification of entrepreneurial opportunities (new products)</strong></th>
<th><strong>Exploitation of identified entrepreneurial opportunities (new products)</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>How many employees are there including owner-managers and relatives regularly working for the business as at 31st January, 2013</td>
<td>Did your firm identify products which were completely different from what you served in the local area for the past three years&lt;br&gt; (1: Yes; 2: No)&lt;br&gt;Did your firm identify products which were completely different from your competitors in your district/region&lt;br&gt; (1: Yes; 2: No)&lt;br&gt;Did your firm identify products which were completely different from your competitors in Tanzania&lt;br&gt; (1: Yes; 2: No)&lt;br&gt;Did your firm identify products which were completely different from others in the world&lt;br&gt; (1: Yes; 2: No)</td>
<td>Did your firm offer products which were completely different from what you offered in the local area for the past three years&lt;br&gt; (1: Yes; 2: No)&lt;br&gt;Did your firm offer products which were completely different from your competitors in your district/region&lt;br&gt; (1: Yes; 2: No)</td>
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<tr>
<td>1.) Full time&lt;br&gt;2.) Part time&lt;br&gt;3.) All</td>
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<tr>
<td>Please indicate number of employees including owner for the past 5 years</td>
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<td>January 2009&lt;br&gt;January 2010&lt;br&gt;January 2011&lt;br&gt;January 2012&lt;br&gt;January 2013</td>
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</table>

*Adapted from Isaga (2012)*

*Adapted from Dahlqvist and Wiklund (2012)*

**The table continues on the next page**
<table>
<thead>
<tr>
<th>Identification of entrepreneurial opportunities (new customers)</th>
<th>Did your firm identify customers/customer groups different from customers/customer groups that you served in the past three years (1: Yes; 2: No)</th>
<th>Adapted from Dahlqvist and Wiklund (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your firm identify customers/customer groups different from customers/customer groups that were served by any other competitors in your district/region (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm identify customers/customer groups different from customers/customer groups that were served by any other competitors in Tanzania (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm identify customers/customer groups different from customers/customer groups that were served by any other competitors in the world (1: Yes; 2: No)</td>
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</table>

<table>
<thead>
<tr>
<th>Exploitation of identified entrepreneurial opportunities (new customers)</th>
<th>Did your firm offer products to customers/customer groups different from customers/customer groups that were served by you in the past three years (1: Yes; 2: No)</th>
<th>Adapted from Dahlqvist and Wiklund (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your firm offer products to customers/customer groups different from customers/customer groups that were served by any other competitors in your district/region (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm offer products to customers/customer groups different from customers/customer groups that were served by any other competitors in Tanzania (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm offer products to customers/customer groups different from customers/customer groups that were served by any other competitors in the world (1: Yes; 2: No)</td>
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</table>

| What is the most influential factors that hinders exploitation of identified opportunities concerning new customers/customer groups. (1: Capital/Finance; 2: Skills & Knowledge; 3: Regulatory requirement; 4: Work experience; 5: Transport; 6: Corruption; 7: Others (specify)) | Adapted from Dahlqvist and Wiklund (2012) |

| Identification of entrepreneurial opportunities (new) | Did your firm identify production processes/ways of organizing which were completely different from what you used in the past three years (1: Yes; 2: No) | Adapted from Dahlqvist and Wiklund (2012). |

The table continues on the next page
<table>
<thead>
<tr>
<th><strong>production processes)</strong></th>
<th><strong>Exploitation of identified entrepreneurial opportunities (new production processes)</strong></th>
<th><strong>Adapted from Dahlqvist and Wiklund (2012).</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Did your firm identify production processes/ways of organizing which were completely different from your competitors in your district/region (1: Yes; 2: No)</td>
<td>Did your firm identify production processes/ways of organizing which were completely different from your competitors in your district/region (1: Yes; 2: No)</td>
<td>Did your firm identify production processes/ways of organizing which were completely different from your competitors in Tanzania (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm identify production processes/ways of organizing which were completely different from your competitors in Tanzania (1: Yes; 2: No)</td>
<td>Did your firm identify production processes/ways of organizing which were completely different from other competitors in the world (1: Yes; 2: No)</td>
<td>Did your firm identify production processes/ways of organizing which were completely different from other competitors in the world (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm identify production processes/ways of organizing which were completely different from other competitors in the world (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from processes you used in the past three years (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from processes you used in the past three years (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm engage production processes/ways of organizing which were completely different from processes you used in the past three years (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the process used by competitors in your district/region (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the process used by competitors in your district/region (1: Yes; 2: No)</td>
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<tr>
<td>Did your firm engage production processes/ways of organizing which were completely different from the process used by competitors in your district/region (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in Tanzania (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in Tanzania (1: Yes; 2: No)</td>
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<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in Tanzania (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in the world. (1: Yes; 2: No)</td>
<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in the world. (1: Yes; 2: No)</td>
</tr>
<tr>
<td>Did your firm engage production processes/ways of organizing which were completely different from the processes used by your competitors in the world. (1: Yes; 2: No)</td>
<td>What is the most influential factors that hinders exploitation of identified opportunities concerning new production processes or ways of organizing. (1: Capital/finance; 2: Skills &amp; Knowledge; 3: Regulatory requirement; 4: Work experience; 5:Transport; 6: Corruption; 7: Others (specify))</td>
<td>Adapted from Dahlqvist and Wiklund (2012); Adapted from literature and expert interviews</td>
</tr>
<tr>
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<td>Adapted from Dahlqvist and Wiklund (2012); Adapted from literature and expert interviews</td>
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</table>
Before going into the details of the fieldwork, it is important to explain about BRELA. BRELA is an executive agency established by the government under the Executive Agencies Act No. 30 of 1997. It is mandated to provide for the formalization of, amongst others, small businesses. The enterprises are registered in the category of business names and issued with a certificate of registration upon satisfying requirements of formalization. It is this certificate of registration which was used in this study to distinguish between firms in the formal sector (those firms registered with BRELA) and the firms in the informal sector (those firms that are not registered with BRELA).

The actual field work started with TAWOFE. Being a newly registered federation, it only provided 50 names of small businesses which were not in the format of ‘registered’ and ‘unregistered’ enterprises. Also, many of the owner-managers of the 50 firms were reluctant to participate in the study, because of perceived business confidentiality. So, TAWOFE decided to use personal and local networks to introduce the fieldworker to members and non-members of the federation. As a result, the population increased to 367 firms and participants felt free and trusted the researcher sufficiently to provide the information requested openly.

Subsequently, in collaboration with the National Kiswahili Council (BAKITA), the questionnaire was translated from English to Swahili, and the two versions were sent to a translator who found only minor differences. The corrected Swahili version was later sent to a sample of owner-managers from 10 small businesses to determine if the questions were understood, if they captured the intended information and if the respondent would stick to the answer given (validity and reliability). This only led to some minor changes in the questionnaire.

Further, the registration status of all 367 small businesses was investigated. It was discovered that 60 of them were registered with BRELA and 307 were not registered. Out of the 60 registered firms, 50 were found responsive regarding meeting the necessary conditions, which included being in the business for three years or more, having a small number of employees and willing to participate in the study. Similarly, out of the 307 unregistered firms, 244 were willing to collaborate, out of which 61 firms were selected by picking one firm from every 4 firms.

Data were collected using face-to-face interviewing of the owner-managers of the firms selected (also called entrepreneurs in this chapter). The owner-managers in the formal sector were also asked to show their certificate of registration from BRELA as evidence of their legal status. Those
who possessed the document were categorised as entrepreneurs in the formal sector, while the rest were treated as entrepreneurs in the informal sector.

So, for the study 50 registered entrepreneurs (entrepreneurs in the formal sector) and 61 non-registered entrepreneurs (entrepreneurs in the informal sector) were used. A comparison between the respondents’ profiles indicates that the majority are male (98.2 percent), with no real difference between the entrepreneurs in the formal sector (98.0 percent) and the entrepreneurs in the informal sector (98.4 percent). 66.7 percent of the respondents were married, with hardly a difference between the entrepreneurs in the formal sector (66.0 percent) and the entrepreneurs in the informal sector (67.2 percent). 95.5 percent of the respondents were in the age group of 21 to 50, with a slight difference between the formal sector (92.0 percent) and the informal sector (98.4 percent). 50.4 percent of the respondents obtained secondary education or a higher degree, with the entrepreneurs in the formal sector scoring more than double (72.0 percent) than the entrepreneurs in the informal sector (32.8 percent). Vocational training was acquired by 40.5 percent of the entrepreneurs, with firms in the formal sector scoring again more than double (58.0 percent) as opposed to the firms active in the informal sector (26.2 percent). In brief, we can say that entrepreneurs in the formal and the informal sectors have more or less similar characteristics, except for their level of education. The results indicate that the entrepreneurs in the formal sector are more educated than the entrepreneurs in the informal sector.

Results with regards to the business profile show that all businesses from the formal and informal sectors are working in the manufacturing industry (100.0 percent), which confirms that our sampling procedure was in order. The majority of businesses (77.5 percent) were established after the year 1999: 62.0 percent of the formal sector versus 90.2 percent of the informal sector. Firms in the formal sector employed 7.2 people per year on average versus 6.6 people that are employed by firms in the informal sector; 80.8 percent of them are fulltime and 19.2 percent part-time employees; for the formal sector the scores were 76.4 percent and 23.6 percent and for the informal sector the scores were 85.5 percent and 14.5 percent. 64.9 percent of the respondents are the sole proprietors: 56.0 percent in the formal sector versus 72.1 percent in the informal sector. The remaining 35.1 percent are partnerships: 44.0 percent of the firms in the formal sector as opposed to 27.9 percent of the firms in the informal sector. Also, all enterprises in the formal sector have a permanent address (versus only 13.1 percent of the enterprises in the informal sector).
Further, the majority of the businesses in the sample (78.4 percent) hired business premises, with hardly a difference between firms in the formal sector (78.0 percent) and the firms in the informal sector (78.7 percent). Also, 96.0 percent of the entrepreneurs in the formal sector were found to be transparent by inviting the third party to witness the premises agreement (versus only 6.6 percent in the informal sector), and 82.0 percent of the entrepreneurs in the formal sector kept financial records (versus 8.2 percent of the entrepreneurs from the informal sector). These latter results are a proof of the appeal of the entrepreneurs in the formal sector to financial institutions, to the extent that 74.0 percent of the entrepreneurs in the formal sector secured loans outside their local areas (versus only 3.3 percent of the entrepreneurs in the informal sector).

The absence of significant differences in the number of people that are employed in the two sectors may be regarded as intriguing. The results of insignificant differences on employment average between the formal and the informal sectors can be explained by two reasons. First, the small sample collected in the formal sector (50) compared to informal sector (61), and second, the majority of the owner-managers in the informal sector do not keep records of the exact number of part-time employed. During the fieldwork, the researcher noted that the part-time employees are hired based on specific assignment without proper documents. Therefore the actual difference in size between the formal and informal sectors could not be identified.

2.5 Testing the hypotheses

The aim of this chapter is to explore the differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities. The focus is on the comparison of percentages scores between the formal and informal sectors. This approach fully serves the purpose and fits with the place of this chapter in this PhD thesis. For that reason, a distinction was made between new products, new customers/customer groups and new production processes/ways of organising, all on a local level, regional level, country level, and world level. In Table 2.2, the results for the identification of entrepreneurial opportunities are presented.

For the identification of new products, the formulation in the questionnaire was whether the respondents, for the past three years, had identified: 1) other products which were different from what they already offered; 2) products different from what the competitors in their district/region offered; 3) products different from what the competitors in the remainder of Tanzania offered; 4)
products different from what the competitors in the rest of the world (outside Tanzania) offered. Table 2.2a shows that entrepreneurs in the formal sector identified new products much more often than entrepreneurs in the informal sector did in the local area (96.0 percent versus 57.4 percent). Concerning the identification of new products which were different from what competitors served in the own district/region, 44.0 percent of the entrepreneurs in the formal sector identified new products, compared to only 9.8 percent of the entrepreneurs in the informal sector. On the country level, 8.0 percent of the entrepreneurs in the formal sector identified new products, as opposed to none of the entrepreneurs in the informal sector. On the world level, also 8.0 percent of the entrepreneurs in the formal sector identified new products, versus none of the entrepreneurs in the informal sector.

For the identification of new customers (or customer groups), the formulation in the questionnaire was whether the respondent, for the past three years, had identified: 1) other customers who were different from what they already served; 2) customers different from what the competitors in their district/region served; 3) customers different from what the competitors in the remainder of Tanzania served; 4) customers different from what the competitors in the rest of the world (outside Tanzania) served. Table 2.2b shows that 72.0 percent of the entrepreneurs in the formal sector identified new customers/customer groups, versus only 45.9 percent of the entrepreneurs in the informal sector in the local area. On the district/regional level, 20.0 percent of the entrepreneurs in the formal sector identified new customers/customer groups, versus only 9.8 percent of the entrepreneurs in the informal sector. On the country level, 6.0 percent of the entrepreneurs in the formal sector identified new customers/customer groups, versus none of the entrepreneurs in the informal sector. On the world level, the scores were again 6.0 percent versus 0.0 percent.

For the identification of new production processes (or ways of organizing), the formulation in the questionnaire was whether the respondent, for the past three years, had identified: 1) other production processes which were different from what they already used in the local area; 2) production processes different from what the competitors in their district/region used; 3) production processes different from what the competitors in the remainder of Tanzania used; 4) production processes different from what competitors in the rest of the world (outside Tanzania) used. Table 2.2c shows that new production processes were identified by 94.0 percent of the entrepreneurs in the formal sector versus 80.3 percent of the entrepreneurs in the informal sector.
in the local area. On the district/regional level, 36.0 percent of the entrepreneurs in the formal sector identified new production processes (versus 8.2 percent of the entrepreneurs in the informal sector). On the country level 4.0 percent entrepreneurs in the formal sector (versus 0.0 percent of the entrepreneurs in the informal sector), and on the world level, the scores were also 4.0 percent versus 0.0 percent of the entrepreneurs in the informal sector.

In brief, the results of identification of new products, new customers/customer groups, and new production processes/ways of organising show undoubtedly that entrepreneurs in the formal sector identify more entrepreneurial opportunities than entrepreneurs in the informal sector, at all levels. Therefore, Hypothesis 1 cannot be rejected.

<table>
<thead>
<tr>
<th>Table 2.2 Identification of entrepreneurial opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of business sector</td>
</tr>
<tr>
<td>a. Identification of new products</td>
</tr>
<tr>
<td>Local level</td>
</tr>
<tr>
<td>District/Regional level</td>
</tr>
<tr>
<td>Country level</td>
</tr>
<tr>
<td>World level</td>
</tr>
<tr>
<td>b. Identification of new customers/customer groups</td>
</tr>
<tr>
<td>Local level</td>
</tr>
<tr>
<td>District/Regional level</td>
</tr>
<tr>
<td>Country level</td>
</tr>
<tr>
<td>World level</td>
</tr>
<tr>
<td>c. Identification of new production processes/ways of organizing</td>
</tr>
<tr>
<td>Local level</td>
</tr>
<tr>
<td>District/Regional level</td>
</tr>
<tr>
<td>Country level</td>
</tr>
<tr>
<td>World level</td>
</tr>
</tbody>
</table>

Next, we take a look at the result of the exploitation of the identified opportunities, again at four levels. Regarding the exploitation of identified new products, the formulation was whether the respondent indeed offered the new products that were identified at the local level, at the district/region level, at the country level, and the world level. See part a in Table 2.3. It has to be noted that the respondents who answered ‘no’ in identification in one category (e.g., new product) were also given ‘zero’ in the exploitation. The results of exploitation of the identified opportunities show that on the local level 78.0 percent of the entrepreneurs in the formal sector offered the
identified new products versus 36.1 percent of the entrepreneurs in the informal sector. On the district/regional level, the scores are 20.0 percent versus only 3.3 percent. On the country level, 8.0 percent of the entrepreneurs in the formal sector versus none of the entrepreneurs in the informal sector offered the identified new products. On the world level, the scores are also 8.0 percent versus 0.0 percent.

With regard to the exploitation of identified new customers/customer groups, the formulation was whether the respondents indeed offered products to identified new customers/customer groups at the local level, at the district/regional level, at the country level and the world level. See part b in Table 2.3. 26.0 percent of the entrepreneurs in the formal sector indeed offered products to new customers/customer groups on the local level, versus 16.4 percent of the entrepreneurs in the informal sector. On the district/regional level, the difference was 12.0 percent, versus only 1.6 percent. On the country level, it was 4.0 percent versus none. Finally, on the world level, the result shows a difference of 4.0 percent versus 0.0 percent again.

Further, the formulation on the use of exploitation of identified new production processes/ways of organizing was whether the respondent indeed used the identified opportunities, again at the local level, at the district/regional level, at the country level, and the world level. See part c in Table 2.3. On the local level, 72.0 percent of the entrepreneurs in the formal sector used the identified new production processes/ways of organising (versus 27.9 percent of the entrepreneurs in the informal sector). The scores on the district/regional level were 8.0 percent of the entrepreneurs in the formal sector versus 3.3 percent of the entrepreneurs in the informal sector. The country level and the world level showed the same scores: 4.0 percent of the entrepreneurs in the formal sector and 0.0 percent of the entrepreneurs in the informal sector.

In short, these results of exploitation of identified new products, identified new customers/customer groups and identified new production processes/ways of organizing also indicate that Hypothesis 2 which states that entrepreneurs in the formal sector exploit more identified entrepreneurial opportunities than the entrepreneurs in the informal sector cannot be rejected. However, the scores on exploitation are in general lower than the scores of identification. This difference is an indication that there is a gap between the two. Therefore, in the next section, we pay attention to the barriers limiting the exploitation of the identified opportunities.
Table 2.3 Exploitation of identified entrepreneurial opportunities

<table>
<thead>
<tr>
<th>Type of business sector</th>
<th>Formal</th>
<th>Informal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. Exploitation of identified new products</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local level</td>
<td>78.0%</td>
<td>36.1%</td>
<td>55.0%</td>
</tr>
<tr>
<td>District/Regional level</td>
<td>20.0%</td>
<td>3.3%</td>
<td>10.8%</td>
</tr>
<tr>
<td>Country level</td>
<td>8.0%</td>
<td>0.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td>World level</td>
<td>8.0%</td>
<td>0.0%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>b. Exploitation of identified new customers/customer groups</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local level</td>
<td>26.0%</td>
<td>16.4%</td>
<td>20.7%</td>
</tr>
<tr>
<td>District/Regional level</td>
<td>12.0%</td>
<td>1.6%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Country level</td>
<td>4.0%</td>
<td>0.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>World level</td>
<td>4.0%</td>
<td>0.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td><strong>c. Exploitation of identified new production processes/ways of organizing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local level</td>
<td>72.0%</td>
<td>27.9%</td>
<td>47.8%</td>
</tr>
<tr>
<td>District/Regional level</td>
<td>8.0%</td>
<td>3.3%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Country level</td>
<td>4.0%</td>
<td>0.0%</td>
<td>1.8%</td>
</tr>
<tr>
<td>World level</td>
<td>4.0%</td>
<td>0.0%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

So, we also studied the factors that hinder the exploitation of identified opportunities such as capital/finance, skills and knowledge, regulatory requirements, work experience, transport and corruption. In general, skills and knowledge are seen as the most prominent barrier, for all new products, new customers/customer groups and new production processes/ways of organizing. On a shared second place followed capital/finance (second with new products and new customers/customer groups but third in new production processes/ways of organizing) and regulatory requirements (second with new production processes/ways of organizing but only third with new products and new customers/customer groups).

Given the two hypotheses formulated in Section 2.3, it was expected that entrepreneurs in the informal sector would experience more barriers than the entrepreneurs in the formal sector, as the former exploit less identified opportunities than the latter. That means the entrepreneurs in the informal sector would experience more barriers than their counterparts regarding capital/finance, skills and knowledge, regulatory requirements, work experience, transport and corruption for the exploitation of identified new products, new customer/customer groups, and new production processes/ways of organizing. However, in a number of situations, this is not the case: capital/finance and skills and knowledge with new products and new customers/customer groups;
transport with all new products, new customers/customer groups, and new production processes/ways of organising; and corruption with new customer/customer groups and new production processes/ways of organizing.

### Table 2.4 Barriers limiting exploitation of identified entrepreneurial opportunities

<table>
<thead>
<tr>
<th>Type of business sector</th>
<th>Formal</th>
<th>Informal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a. The most influential barrier that limits exploitation of identified new products</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital/Finance</td>
<td>43.6%</td>
<td>28.5%</td>
<td>35.2%</td>
</tr>
<tr>
<td>Skills &amp; knowledge</td>
<td>44.6%</td>
<td>38.0%</td>
<td>40.9%</td>
</tr>
<tr>
<td>Regulatory requirements</td>
<td>2.7%</td>
<td>27.7%</td>
<td>16.6%</td>
</tr>
<tr>
<td>Work experience</td>
<td>0.0%</td>
<td>0.7%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Transport</td>
<td>6.4%</td>
<td>0.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Corruption</td>
<td>2.7%</td>
<td>4.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

| **b. The most influential barrier that limits exploitation of identified new customers/customer groups** |        |          |       |
| Capital/Finance          | 38.5%  | 33.1%    | 35.8% |
| Skills & knowledge       | 44.3%  | 38.7%    | 41.5% |
| Regulatory requirements  | 5.7%   | 25.8%    | 15.9% |
| Work experience          | 0.0%   | 0.0%     | 0.0%  |
| Transport                | 9.0%   | 0.8%     | 4.9%  |
| Corruption               | 2.3%   | 1.6%     | 2.0%  |
| Total                    | 100.0% | 100.0%   | 100.0%|

| **c. The most influential barrier that limits exploitation of identified new production processes/ways of organizing methods** |        |          |       |
| Capital/Finance          | 18.4%  | 21.8%    | 19.9% |
| Skills & knowledge       | 30.4%  | 39.1%    | 34.4% |
| Regulatory requirements  | 27.2%  | 33.8%    | 30.2% |
| Work experience          | 0.6%   | 0.8%     | 0.7%  |
| Transport                | 21.5%  | 3.0%     | 13.1% |
| Corruption               | 1.9%   | 1.5%     | 1.7%  |
| Total                    | 100.0% | 100.0%   | 100.0%|

#### 2.6 Discussion

The purpose of this chapter was to determine whether there are differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in LDCs, in this case, Tanzania. The results indicate that entrepreneurs in the formal sector identify
and exploit more entrepreneurial opportunities than the entrepreneurs in the informal sector. The outcome could be expected from the literature study as well. However, it was striking that the number of exploited opportunities was apparently lower than the number of identified entrepreneurial opportunities, which opened the door for exploring the barriers to that. In general, skills and knowledge are seen as the most prominent barrier, for all new products, new customers/customer groups and new production processes/ways of organizing.

In some situations, entrepreneurs in the formal sector experience more barriers than entrepreneurs in the informal sector. Indeed, a remarkable illustration of the four cases can be seen in Table 2.4. First, entrepreneurs in the formal sector experience more barriers in capital/finance related to new products and new customers/customer groups than entrepreneurs in the informal sector. Entrepreneurs in the formal sector are permitted to do business with the central government, local government and government agencies and have access to the international trade exhibitions. They naturally meet with different groups of new customers whose needs have not been met, and they discover varieties of new products for furniture from foreign suppliers respectively. Thus, capital/finance for the raw materials and promotion expenses to new products, and for creating awareness to the new customers/customer groups become a more important obstacle to formal entrepreneurs in exploiting the identified entrepreneurial opportunities of new products and new customers/customer groups respectively. This difference does not apply to new production processes/ways of organizing because the majority of the entrepreneurs in the formal sector can afford the cost of tools, equipment and simple machines required for furniture fittings.

Similarly, entrepreneurs in the formal sector experience more barriers in skills and knowledge related to new products and new customers/customer groups than the entrepreneurs in the informal sector. Local entrepreneurs (i.e., entrepreneurs from Tanzania) are claiming that entrepreneurs from foreign countries (mainly China) dominate the local market. The Chinese entrepreneurs grasp new customers/customer groups as well as meet the customers’ needs with new products. Indeed, the low level of skills and knowledge possessed by the entrepreneurs in the formal sector hinders them from exploiting the identified new products and new customers/customer groups. A gap of skills and knowledge between the local entrepreneurs and foreign entrepreneurs related to new products and new customers/customer groups might be the source of the barrier. Again, this difference does not apply to new production processes/ways of organizing methods because the
The majority of the entrepreneurs in the formal sector can manage the cost of tools, equipment and simple machines required for furniture fittings.

Third, transport is more seen as a barrier with the entrepreneurs in the formal sector as far as new products, new customers/customer groups and new production processes/new ways of organising are concerned, compared to the entrepreneurs in the informal sector. The majority of the entrepreneurs in the formal sector purchase raw materials (timber) from upcountry and incur transportation cost to the city centers. Entrepreneurs in the formal sector face many challenges regarding permission from the government authorities before the raw materials are transported to their business locations. As a consequence, the cost of processing/ways of organizing is inflated by the delays of a permit from government authorities. Also, transport of new products to the new customer/customer groups staying far from the business premises is extensively increased due to the inadequate infrastructure of roads and railways. For example, a consignment of new products can take more than two weeks instead of two days to reach the destination, and thus, inflates costs. Entrepreneurs in the informal sector on the other hand purchase raw materials (timbers) direct from the formal entrepreneurs located in the city centers. This means that the exploitation of identified new products, new customers/customer groups and new production processes/ways of organizing can be done in the local area. Therefore, the entrepreneurs in the informal sector do not incur transport costs regarding the exploitation of identified new products, new customers/customer groups and new production processes/ways of organizing.

Finally, corruption is an obstacle for entrepreneurs in the formal sector more so than for the entrepreneurs in the informal sector. Entrepreneurs in the formal sector transport raw timbers from other regions such as Iringa, Mtwara and Tanga to Dar Es Salaam where the majority of the furniture manufacturers are located. The formal entrepreneurs face many roadblocks that attract bribery. The bribery increases costs of production processes/ways of organizing. Further, the corruption acts are also observed in the transportation of finished goods to new customers/customer groups outside the premises of formal entrepreneurs. This difference does not apply to the new products because the innovation is internally created.
2.7 Concluding remarks

The contribution of this chapter is to answer the question whether there is a difference between the entrepreneurs in the formal and the informal sectors in identifying entrepreneurial opportunities. The results reported here suggest that in all three situations of resource recombination (new products, new customers/customer groups and production processes/ways of organising) formal entrepreneurs identify more entrepreneurial opportunities compared to informal entrepreneurs. Additionally, the identification rate on a local, regional, national and world level lowered in both sectors. There were hardly any differences in the level of identifying of entrepreneurial opportunities between Tanzania and the world in both sectors. This indicates that there is more a difference between local and district/region on the one hand and the world outside the district/region on the other hand, than that it is relevant to distinguish between the country and the world respectively.

Regarding the exploitation of entrepreneurial opportunities, the results also indicate that the entrepreneurs in the formal sector are better at exploiting identified entrepreneurial opportunities than the entrepreneurs in the informal sector. This is in line with expectations. Again, the exploitation rate on a local, regional, national and world level lowered in both sectors, and there were hardly any differences in the level of exploiting identified entrepreneurial opportunities between Tanzania and the world in both sectors. It can be pointed out that there is more a difference between local and district/region on the one hand and the world outside the district/region on the other hand, than that it is relevant to distinguish between the country and the world, respectively.

The results of the identification and exploitation of entrepreneurial opportunities reflect the outcome of the economic and political history, education system and legal framework in the formal sector and the informal sector in Tanzania. The economic and political history, education system and legal framework might have contributed to the gap between the local and country levels in identifying and exploiting entrepreneurial opportunities. Owner-managers have little entrepreneurial skills to identify and exploit opportunities at the country level and worldwide level. There is a need for the government to build more vocational training schools fitted with modern facilities, qualified personnel and up to date curricula enhancing technical education so that the entrepreneurs in the formal sector and informal sectors are extensively equipped with modern knowledge of entrepreneurship.
The above suggestion is based on the results of the factors hindering exploitation of entrepreneurial opportunities, which show that in some situations entrepreneurs in the formal sector experience more barriers than the entrepreneurs in the informal sector. The factors are mostly affecting the growth of the formal sector and considered to discourage the shift of entrepreneurs from the informal sector to the formal sector. Policy makers need to create a business-friendly environment that would encourage entrepreneurs to attend entrepreneurship training; that would motivate training institutions to improve entrepreneurship curricula; public offices to fight and eradicate corruption; and to improve critical business infrastructure such as roads and railways.

Limitations of the study reported in this chapter may be observed in three crucial areas. First, the research is done only in Tanzania (an LDC at the time of writing). Second, the literature that is used to build the concepts predominantly applies to advanced economies. Third, the fieldwork is dependent on the respondent’s perception which may lead to biased results. Despite the fact that these limitations have already been considered to some extent in this study, future studies are encouraged to try to minimise these limitations.

Finally, future studies could perhaps focus more on finding an explanation for why entrepreneurs in the formal sector identify and exploit more entrepreneurial opportunities than the entrepreneurs in the informal sector. Also, better insights into barriers like ‘regulatory requirements’ could contribute to a better understanding of the differences between the two sectors.
Chapter 3

Differences between formal and informal sector entrepreneurs in terms of growth of their firms

3.1 Introduction

Many studies have recognised the role of small businesses in job creation and the potential contribution of small businesses to economic development (Ayanda and Laraba, 2011; Bruce et al., 2009; Neumark et al., 2011; Wit and Kok, 2014). The literature on entrepreneurship has noted that owner-managers (also called entrepreneurs in this chapter) usually are working in an unstable environment and are constantly looking for scarce resources in order to exploit identified opportunities (Kodithuwakku and Rosa, 2002). In this regard, more knowledge about customer demands is accumulated, adequate technologies for new products are extensively developed (Choi and Shepherd, 2004; GD et al., 2017; Mupani and Chipunza, 2019; Okundaye et al., 2019) and innovative plans are expeditiously formulated to support growth motives (Colombelli et al., 2013). As a result, small businesses may achieve faster growth rates in terms of employment than large businesses (Haltiwanger et al., 2013; Ayyagari et al., 2014) and contribute to poverty reduction (Al-Mamun et al., 2014; Boateng et al., 2015). Hence, growth is recognised both as an essential technique of assessing the performance of enterprises (Clayton et al., 2013), and a measure of economic success of small businesses (Barringer et al., 2005).

Often firms in least developed countries (LDCs) report low growth rates (Nichter and Goldmark, 2009) compared to the firms from advanced economies. This could reflect that most firms in LDCs

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6The sections about differences between the formal sector and the informal sector (Section 3.2.1) and the formal sector and the informal sector in Tanzania (Section 3.2.2) are respectively copied from Section 2.2.2 and Section 2.2.3 of Chapter 2 of this PhD thesis. Furthermore, the first version of this paper was published as: Abdallah, G.K. (2017). Differences between firms from the formal sector and the informal sector in terms of growth: Empirical evidence from Tanzania. Journal of Entrepreneurship in Emerging Economies, 9(2), 121-143. The chapter in this PhD thesis is based on the published paper with minor textual adjustments to fit the chapter within the PhD thesis.
are in the informal sector (Becker, 2004). Informal sector owner-managers for instance tend to possess lower levels of education, skills of innovation and entrepreneurship training (Kristiansen, 2004; Ngowi, 2009; Olomi and Sinyamule, 2009).

Despite the shortcomings from the informal sector, the number of entrepreneurs in the formal sector moving into the informal sector in LDCs is increasing (Rosa et al., 2006; Williams and Nadin, 2012). Reasons may be due to an unfriendly formal business environment reflected in excessive regulations, high taxes, and cumbersome laws (Schneider et al., 2010; Schneider and Enste, 2000; Schneider and Hametner, 2013; Schneider and Neck, 1993). Indeed, the above evidence suggests that the business environment in LDCs is different from the business environment in developed economies (Rosa et al., 2006; Williams and Nadin, 2012) and thus, more entrepreneurship studies are needed (Naudé, 2008; Webb et al., 2009, 2013). On the basis of this chapter, the contribution to the literature is that it investigates the differences between firms in the formal and informal sectors regarding the growth. Therefore, this chapter answers the following research question,

*What is the extent of differences in terms of growth between firms in the formal and informal sectors in a least developed country, such as Tanzania?*

The remainder of this chapter includes, first, a review of the literature in which the difference between the formal and informal sectors is discussed, and where three approaches are used to distinguish the two sectors. Then, the formal and informal sectors are discussed in the context of Tanzania, followed by a discussion of the concept of firm growth and differences in growth between the formal and informal sectors. In section 3.3 the hypothesis underlying the empirical study is presented, followed by details of the fieldwork, and methodology. Furthermore, the hypothesis is tested by the Chi-Square Test and Compounded Annual Growth Rate (CAGR) followed by the discussion of the results. The chapter ends with concluding remarks, implications, limitations, and recommendations for future studies.
3.2 Relevant literature

3.2.1 Differences between the formal and informal sectors

While there is no common definition of what constitutes a “formal” or “informal” sector, (Peattie, 1987; Ulyssea, 2010) scholars have broad agreement that the formal sector and the informal sector can be distinguished from at least three different perspectives: a social-economic perspective, a behavioural perspective, and an institutional perspective (Nelson and De Bruijn, 2005).

In terms of the socio-economic perspective, firms from the informal sector are considered to be small in size, family owned, relying on indigenous resources, low in technology, little possibility to become self-employed, and having no proper wage agreements (Bangasser, 2000; Bigsten et al., 2000; Eijdenberg & Borner, 2017; Williams et al., 2009; Fortin et al., 1997; Kiggundu, 2002; Mutalemwa, 2009; Okpara and Kabongo, 2009; Swaminathan, 1991; Williams, 2014). These characteristics explain what may be regarded as one of the weaknesses of firms from the informal sector (Williams and Nadin, 2012), namely that they are labour intensive, instead of capital intensive (Rauch, 1991). As a result, they have higher transaction costs, they are unable to benefit from economies of scale, and they have low social welfare and low labour productivity (Ferreira-Tiryaki, 2008; Taymaz, 2009; Ulyssea, 2010). Firms from the formal sector, on the other hand, are run by qualified entrepreneurs who aim to meet public services such as courts of law, army, and police through tax payment and maintaining the quality of services/products for customers (Khayesi et al., 2014; Prado, 2011; Williams, 2014).

In terms of the behavioural perspective, the majority of the entrepreneurs from the informal sector establish firms because of lack of choice (Hechavarria and Reynolds, 2009, p. 418; Koop et al., 2000). So, the entrepreneurs are pushed by necessity motivation to the informal type of businesses (Liñan et al., 2013). The identified push drivers include poverty or economic vulnerability, unemployment, children care, lack of or dissatisfaction with a job, and redundancy amongst others (Abdallah and Eijdenberg, 2019; Cromie, 1987; Eijdenberg and Masurel, 2013; Garba et al., 2013; Williams and Williams, 2012). Interestingly, firms from the formal sector are established by entrepreneurs pulled by opportunity motives, such as to become independent, to increase personal/family income, to fill the gap in the market, and to meet challenges (Aziz and Ayvaz, 2014; Williams and Williams, 2012), so that higher level of success and growth can be achieved (Rahman and Rahman, 2011).
Finally, the institutional perspective defines the informal sector as operating outside the government regulatory system (Eijdenberg et al., 2019; Webb et al., 2013). Entrepreneurs in the informal sector conceal business operations to avoid taxes from government authorities (Mattos and Ogura, 2009). The risk of detection by the tax officials is viewed to be low compared to the cost of time and income spent on formalizing firms from the informal sector (Sookram and Watson, 2008; Eijdenberg et al., 2019). As a consequence, entrepreneurs in the informal sector enjoy low public trust due to inferior goods or services, lack of access to resources (land, credits, etc.), penalties once caught, and the weak rule of law (Ulyssea, 2010). Additionally, they lack financial benefits, like the possibility to purchase materials on credit, to borrow from formal financial institutions, and to cash discounts (Khavul et al., 2009; Ngiba et al., 2009).

In contrast, firms in the formal sector are recognised by the regulatory framework. They have access to public goods and services (e.g., electricity, roads, and water) through the protection of the state organs and property rights, and they have better access to financial entities (Straub, 2005). As a result, formal entrepreneurs can meet customer needs better in terms of quality and quantity (Ihri and Moe, 2004) and are more efficient (Kathuria and Raj, 2013) in terms of business planning (Baird et al., 1994).

3.2.2 The formal and informal sectors in Tanzania

In Tanzania, the best approach that can be used to distinguish between the formal and informal sectors is the institutional perspective (Nelson and De Bruijn, 2005). Firms in the informal sector operate outside the legal framework and are not registered in the official documents (United Republic of Tanzania, 2008a). Instead, their operations are covered under the umbrella policy of business licenses issued by the local authorities (Nelson and De Bruijn, 2005). Additionally, many of them are household enterprises, not keeping books of accounts and employing only a few workers (Pfander and Gold, 2000). As a result entrepreneurs in the informal sector are working in isolation from each other; are more undeveloped and operate within the casual environment (United Republic of Tanzania, 2008a). In contrast, entrepreneur in the formal sector follow the legal system by registering with the Business Registration and Licensing Agency (BRELA), through which they gain legal status with the associated obligations and acts of compliance to government regulation (Nelson and De Bruijn, 2005). The document is the legal barrier that creates benefits for entrepreneurs in the formal sector as opposed to entrepreneurs in the informal sector.
in three main areas (United Republic of Tanzania, 2008b), namely property archetypes, business organisation archetypes and expanded market archetypes (United Republic of Tanzania, 2008a).

First, with regard to the property archetypes, enterprises in the informal sector are operating their businesses in the local areas only (United Republic of Tanzania, 2008a). This is because properties owned by entrepreneurs in the informal sector cannot be easily exchanged due to lack of official valuation reports and documents of ownership that can be presented in the court of law (United Republic of Tanzania, 2008a). As a consequence, the entrepreneurs in the informal sector are excluded from the right of access to capital by the formal financial institutions.

Second, the archetypes of the business organisation create a barrier of limited liability which affect many firms from the informal sector (United Republic of Tanzania, 2008a). The limited liability means there is no legal separation between the informal owner-managers and the enterprises. As a result, owner-managers are exposed to business risk (United Republic of Tanzania, 2008a). Additionally, they do not provide for the division of labour nor contracts between the enterprise and stakeholders (e.g., suppliers, clients, creditors, and investors) (United Republic of Tanzania, 2008a). Hence, stakeholders become reluctant to do business with entrepreneurs from the informal sector because their rights are not protected (United Republic of Tanzania, 2008a).

Concerning the archetypes of the expanded market, enterprises from the informal sector do not protect trade names and trademarks of their products and do not prepare financial statements (United Republic of Tanzania, 2008a). As a result, they fail to obtain credit outside the local area, they cannot operate in a broader jurisdiction and they do not promote their products and financial statements to different magazines and accounting journals respectively (United Republic of Tanzania, 2008c).

3.2.3 Firm growth

There are three different perspectives on the concept of firm growth in the literature. First, growth is viewed as an antecedent variable influencing the outcomes of the dependent variables (outcome of growth); second, firm growth is referred to as a processes taking place in an organisation (actual growth process); and third, firm growth is described as a dependent variable explaining the impact of independent variables (growth as an outcome) (McKelvie and Wiklund, 2010).
Furthermore, scholars argue that growth measurement is invariably considered to provide realistic information about firm performance, where it is associated with two other elements: growth indicator, and time span (Shepherd and Wiklund, 2009). That is to say: there should be a clear pattern of combination between measurement, growth indicator and time frame elements to avoid unexpected heterogeneity in the growth results (Delmar et al., 2003). The details of the three components are discussed below.

Concerning the measurement of firm growth, the basic approaches used are absolute and relative (Wiklund et al., 2009; Coad and Tamvada, 2012). The absolute measures of firm growth are based on differences in size between two points in time, whereas the relative approach usually calculates firm’s growth rate in proportions (Shepherd and Wiklund, 2009). Delmar et al., (2003) suggested the use of absolute formula for large businesses and relative measurement for small businesses. However, empirical findings indicate that absolute analysis can also be applied to small businesses and later translated into the corresponding frequencies (Shepherd and Wiklund, 2009). In this study, an absolute approach was used in the Chi-Square Test and a relative approach was applied in the CAGR. Therefore, we can say that firms’ growth in the formal and informal sectors were measured by both the absolute approach and the relative approach, and the results are improved by the efficiency of each measurement.

With regard to growth indicators, they are classified according to subjective measures and objective measures (Moreno and Casillas, 2008). Usually, the subjective indicators evaluate perceptions of entrepreneurs about firm growth through: high, medium or low; growth aspirations (want to grow or not); and attitudes toward firm growth (Kolvereid, 1992; Foreman-Peck et al., 2006; Delmar and Wiklund, 2008; Moreno and Casillas, 2008). However, the objective indicators predominantly assess the information that exists and is observed in terms of firm employment number; sales; net assets; market share; sales volumes; company reputation; return on investment (ROI); profitability; and established corporate identity (Davidsson, 1991; Hart and Oulton, 1996; Delmar et al., 2003; Abdelrahim and Alasadi, 2007).

The outcomes of both the subjective indicators and the objective indicators are later accelerated by the influencing factors that include individual influence, growth aspiration of the owner, entrepreneurial action, environment, industry and market, perception, skills, and knowledge (Davidsson, 1991; Kolvereid, 1992; Rauch et al., 2005). Similarly, literature recommended the use
of the sales indicator and the employment indicator particularly for measurement of firm growth. This is because it is easier to obtain sales and employment data from the owner-managers; from the firm’s reports; and from the accounting documents (Delmar et al., 2003; Fadahunsi, 2012). As a result, both the employment indicator and sales indicator are frequently used for job creation and economic development (Jarillo, 1989; Morrison et al., 2003; Headd and Kirchhoff, 2009; Cruz et al., 2012).

Nevertheless, the selection of the sales indicator and the employment indicator depends on the study undertaken, the choice of growth measurement and the timeframe to be used (Leitch et al., 2010). Admittedly, each indicator has a different impact on firm growth (Shepherd and Wiklund, 2009) and yields different results. Literature suggested the use of the sales indicator and the employment indicator on the trading and manufacturing enterprises respectively. This is because the sales indicator has a substantial correlation with profitability in the trading industry (Wolff and Pett, 2006), whereas the employment indicator provides better explanations of new jobs created by the manufacturing industry (Mead and Liedholm, 1998). Also, the employment indicator is most preferred for measurement of firm size and in cross-cultural comparative studies (Cooney and Malinen, 2004; Coad and Tamvada, 2012). On the basis of the above reasons our study has opted to use the employment indicator to measure growth of firms in the formal and informal sectors.

Finally, the timeframe is considered to be a sensitive element (Fitzsimmons et al., 2005) that may result in regular or irregular growth (Delmar et al., 2003). The majority of the firms indicate growth at the beginning of the business life and die before reaching the intermediate stage (Mead, 1994), thus, assessing them at a short span can hardly reflect the real picture of the firms growth (Birley, 1987). Therefore, a more extended period is recommended to manifest an actual growth pattern, to allow comparability and generalizability of the firms growth results (Weinzimmer et al., 1998).

3.2.4 Differences in growth between firms in the formal and informal sectors

The emerging body of literature about differences in growth between firms in the formal and informal sectors can be traced from amongst others the concepts of manager’s attitude toward growth, resource-based view (RBV) and institutional theory (Brown et al., 2005; Arinaitwe, 2006; Wiklund et al., 2009). The theories mentioned above are predominantly explaining either what
influences the differences in growth between firms in the formal and informal sectors or why there is a difference in growth between firms in the formal and informal sectors, as is explained below.

According to the RBV differences in growth between the firms in the formal and informal sectors is observed at the time of founding the small businesses. Firms in the formal sector are established with abundant resources regarding finance, human and networking (Wiklund et al., 2009), and have access to utilities (Webb et al., 2013). In contrast, firms in the informal sector are created without owning proper resources (Kolvereid, 1992). This was observed in a study conducted by Davidsson (1991) which found that a substantial difference in growth between firms in the formal and informal sectors is considerably determined by the numerous resources possessed by the firms in the formal sector. Notably, the firms in the formal sector are more exposed and credited by both formal financial institutions and microfinance institutions while the firms in the informal sector are limited to microfinance institutions only. Gagliardi (2009) investigated about the contribution of formal financial institutions to the growth of firms in the formal and the informal sectors, and discovered that the former show more often growth than the latter because they receive loans with lower interest rate.

Similarly, a human capital concept which can be explained regarding knowledge, experience, and skills (Wiklund et al., 2009), generally assists firms in the formal sector to create more entrepreneurial activities that contribute to the firm growth (Alvarez and Busenitz, 2001; Isaga et al., 2015). Rauch et al. (2005) examined the effect of the human capital of business owners, the human capital of employees, and the human resource development and utilization, and determined that knowledge, skills, and experience developed and utilised by the members of a firm have a substantial impact on firm growth. Admittedly, firms in the formal sector are run by specialised and experienced people, with required professional qualifications and skills (Bryson et al., 1997), rather than the firms in the informal sector. Therefore, the utilization of knowledge, experience and skills increases production, discovers more customer groups and subsequently creates more jobs to the firms in the formal sector (La Porta and Shleifer, 2008).

The third resource of RBV is networking. Networking can be considered as a technique for establishing, maintaining, developing and utilising relationships to create new opportunities for the benefits of all actors (Evans, 2015). Networking is customarily enjoyed with actors such as potential and existing customers and suppliers, competitors from the local market and foreign
market, business friends and colleagues, government agencies and employees (ODonnell, 2014). By using interpersonal and organisational relationships, networking is recognised as a marketing strategy (Preechanont and Tao, 2013), which positively impacts firm growth (Ebbers, 2013). Based on the institutional framework, firms in the formal sector own more extensive networks regarding size and frequency of communication, and disseminating first-hand information about the external environment than is the case with firms in the informal sector (Lee and Tsang, 2001).

Hence, entrepreneurs in the formal sector are equipped with all necessary information that can be used for innovative activities (Mukkala, 2010; Kchaich Ep Chedli, 2014) while the entrepreneurs in the informal sector lack most of the business information. Literature observed that formal entrepreneurs are more innovative and show higher employment growth than informal entrepreneurs (Merikull, 2010). This is because entrepreneurs in the formal sector usually have a significant share of new products on the market, so, price competition with their counterparts becomes low. Further, price elasticity for products sold by firms in the formal sector becomes very low; revenue is ensured, and inflow of skilled workers is high (Smolny, 1998). This means that the increase in skilled workers proportionately increases the employment growth to firms in the formal sector (Mitra and Jha, 2015). The argument above can be observed in a study by De Elejalde et al., (2015) which found that innovation increases the number of both skilled and unskilled workers in the formal sector; as formal entrepreneurs invent processes or products, and jobs of unskilled workers are taken over by skilled workers using new technologies, and more jobs are created for unskilled workers due to the increase in demand for casual workers. In brief, it can be concluded that through innovation both skilled and unskilled workers are recruited by the firms in the formal sector at different proportions (Aboal et al., 2015).

With regard to the institutional concept, the literature has found that differences in growth between firms in the formal and the informal sectors are partly caused by the external environment (Chen and Roberts, 2010). Particularly, the way each sector operates within a social framework of norms, values and other external factors (Fernando and Lawrence, 2014). The external factors include institutions such as laws, policies, regulations, written and unwritten rules as well as taxes imposed by the government (Scott, 1987; Chen and Roberts, 2010; Roxas and Coetzer, 2012). Scholars confirm that compliance with external factors, enable firms in the formal sector to obtain the right of existence and legitimacy, which shape the firms on how to operate (Chen and Roberts, 2010).
Accordingly, legitimacy enhances the reputation of firms in the formal sector, particularly social recognition and acceptance, which facilitate access to scarce resources like finance and professional cadre (Sleuwaegen and Goedhuys, 2003), to contribute to the growth of the firms. Nevertheless, it is admitted that lack of enforcement of regulations (Dabla-Norris and Inchauste, 2008) may provide opportunities for firms in the informal sector to more often show growth than firms in the formal sector as it is observed in LDCs (Chen et al., 2002; Becker, 2004; Aggarwal et al., 2011).

3.3 Hypothesis

Scholars acknowledge that owner-managers in the formal sector establish firms particularly for growth, and are always committed to achieving the target (Barringer et al., 2005), by fulfilling the needs of the customers (Okpara and Kabongo, 2009). Apparently, firms in the formal sector benefit from access to property rights protection, economies of scale and attractive investments (Nicholls-Nixon, 2005; Beck et al., 2008; Tsuruta, 2012). In short, the economic and professional benefits empower firms in the formal sector to create more job vacancies for growth purposes (Löfsten and Lindelöf, 2002). Conversely, firms in the informal sector are hardly protected by the policies issued by the government authorities (Macias and Cazzavillan, 2009), particularly, the regulations recognising their existence (Loayza, 1996). As a consequence, firms in the informal sector conceal their operations, retain few employees and become small in size (Beck et al., 2006).

Scholars (e.g. (Bongomin et al., 2018; Okundaye et al., 2019; Chatterjee et al., 2018; Hanifzadeh, et al., 2018; Ghobakhloo and Tang, 2013) enunciate that access to finance, entrepreneurial knowledge and technology has a significant impact on the growth of firms in the formal sector compared to firms in the informal sector. The high levels of entrepreneurial knowledge, such as marketing skills possessed by entrepreneurs in the formal sector, enable them to formulate strategies for business networking better than entrepreneurs in the informal sector (Obeng, 2019). The strategies are well planned and structured to the extent that the implementation tends to get stuck in the minds of many customers and other players for a longer period (Baporikar et al., 2016; Eschker et al., 2017). The increase in number of customers is related with the increase in transactions with the firms in the formal sector, and thus, the employment growth. In contrast, entrepreneurs in the informal sector rely on marketing strategies that create weak networks, such
as interpersonal relations or direct contact with primary customers, which limit the number of customers as well as the employment growth targets (Baporikar et al., 2016).

Access to finance is regarded to be an important factor for the survival and growth of small businesses (Kariv and Coleman, 2015; Shah et al., 2013). Scholars have noted that the formal sector is associated with a number of financial institutions which provide loans at low interest rates as well as affordable collateral conditions. The loans are used by the formal sector to acquire technology and innovative facilities used on production of quality products for customer satisfaction as well as increase in the number of customers (Kariv and Coleman, 2015). In contrast, lack of financial sources appear to be the largest challenge affecting the growth of the informal sector. The majority of the financial sources like commercial banks and government entities have become reluctant to provide credits to the informal sector due to high risks (Baporikar et al., 2016). Consequently, the plans are hardly implemented by the informal sector and the employment growth targets are not reachable (Shah et al., 2013). The study thus formulates the hypothesis that:

\[ \text{Hypothesis: Firms in the formal sector more often show growth than firms in the informal sector in terms of employment.} \]

### 3.4 Fieldwork

The fieldwork for this study was done in Dar Es Salaam, the leading business city of Tanzania, where a large number of small businesses are located. Prior to the actual fieldwork, potential stakeholders were contacted to gain more knowledge about the firms in the formal and informal sectors in Tanzania. In this instance, two officers from Ministry of Industry and Trade (MIT) (Department of SMEs), six officers from Property and Business Formalization Program (in Swahili MKURABITA), one expert from Business Registration and Licensing Agency (BRELA), experts from National Economic Empowerment Council (NEEC), two officers from Tanzania Woodworking Federation (TAWOFE), and two officers from Small Industries Development Organisation (SIDO) were interviewed. In these meetings, it was found that there is no relevant and reliable database kept for firms in the formal and informal sectors in Tanzania.

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7 Section 3.4 overlaps with Section 2.4
Hence, the study adopted a non-probability sampling procedure. Further, qualitative interviews were conducted with six experts from SIDO and six from MKURABITA about the growth measurements and growth indicators in Tanzania. Similarly, different approaches, measurements, and indicators of firm growth from the literature were also discussed with both the experts from SIDO and MKURABITA, to remain with the appropriate growth techniques relevant to the Tanzania environment. Finally, we agreed upon which measurements and indicators to include in the questionnaire, based on the findings of a pilot study of ten entrepreneurs randomly selected from the furniture industry. This process led to only minor corrections.

In Table 3.1 only those items are presented that have been used for the analysis in this chapter.
Table 3.1 Measurement instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Dimension (scale)</th>
<th>Origin of the item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic information</td>
<td>What is your gender</td>
<td>Standard items</td>
</tr>
<tr>
<td></td>
<td>(1: Male; 2: Female)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What is your age group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Below 20; 2: 21-30; 3: 31-40; 4: 41-50; 5: 51-60; 6: over 60)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What is your marital status</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Married; 2: Unmarried/Single; 3: Widow/Widower; 4: Divorced; 5: Separated)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Please indicate the highest level of education you have successfully attained</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Have you attended any vocational training</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Please indicate the category the describe the period you have received training</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: This year; 2: 1 year ago; 3: 2 years ago; 4: 3 years ago; 5: 4 years ago; 6: 5 to 10 years; 7: over the last 10 years)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Please indicate the type of training obtained</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Tailoring; 2: Carpentry; 3: Food; 4: Civil/mechanical engineering; 5: Handicrafts; 6: Other (specify))</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Please indicate duration of the training attended</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Less than 1 year; 2: Between 1 and 2 years; 3: Between 2 and 3 years; 4: Between 3 and 4 years; 5: More than 4 years)</td>
<td></td>
</tr>
<tr>
<td>Business characteristics</td>
<td>When was your business was established</td>
<td>Standard items</td>
</tr>
<tr>
<td></td>
<td>(Year)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>What is your main business activity</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Retail; 2: Service; 3: Whole sale; 4: Manufacturing; 5: Tailoring; 6: Others (specify))</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Please indicate type of ownership of your firm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1: Sole Proprietorship; 2: Partnership; 3: Corporation; 4: Other (specify))</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Does the firm own registered permanent address (1: Yes; 2: No)</td>
<td></td>
</tr>
</tbody>
</table>

The table continues on the next page

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8 Table 3.1 partly overlaps with Table 2.1
<table>
<thead>
<tr>
<th>If yes, indicate below</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(1: Name of the firm; 2: Permanent address)</td>
<td></td>
</tr>
<tr>
<td>Is the business premise/(s)</td>
<td></td>
</tr>
<tr>
<td>(1: Owned Yes/No; 2: Hired Yes/NO; 3: Temporary Yes/No)</td>
<td></td>
</tr>
<tr>
<td>If hired who witnessed the agreement</td>
<td></td>
</tr>
<tr>
<td>(1: Local authority leader; 2: Public Prosecutor; 3: Any other legal entity)</td>
<td></td>
</tr>
<tr>
<td>Is your business establishment authorized by</td>
<td></td>
</tr>
<tr>
<td>(1: Local authority Yes/No; 2: Business Registration and Licensing Agency (BRELA) Yes/No; 3: Both of 1 and 2 Yes/No; 4: None of the above Yes/No)</td>
<td></td>
</tr>
<tr>
<td>Do you keep financial records as per accounting standards</td>
<td></td>
</tr>
<tr>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
<tr>
<td>Have you applied and received a loan from financial institutions outside your local area?</td>
<td></td>
</tr>
<tr>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business growth</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>How many employees are there including owner-managers and relatives regularly working for the business as at 31\textsuperscript{st} January, 2013</td>
<td>Adapted from Isaga (2012)</td>
</tr>
<tr>
<td>1.) Full time</td>
<td></td>
</tr>
<tr>
<td>2.) Part time</td>
<td></td>
</tr>
<tr>
<td>3.) All</td>
<td></td>
</tr>
</tbody>
</table>

Please indicate number of employees including owner-managers and relatives regularly working for the business for the past 5 years

January 2008
January 2009
January 2010
January 2011
January 2012
Before going into the details of the fieldwork, it is important to explain about BRELA. BRELA is an executive agency established by the government under the Executive Agencies Act No. 30 of 1997. It is mandated to provide for the formalization of businesses including enterprises. Enterprises are registered in the category of business names and issued with a certificate of registration upon satisfying requirements of formalization. It is this certificate of registration which was used in this study to distinguish between firms in the formal sector (those firms registered with BRELA) and firms in the informal sector (firms that are not registered with BRELA).

The actual fieldwork took place in the period October-December, 2012 in Dar Es Salaam. The field work started with TAWOFE. Being a newly registered federation, it only provided 50 names of small businesses which were not in the format of ‘registered’ and ‘unregistered’ small businesses. Also, the majority of the 50 owner-managers were reluctant to participate in the study, because of the perceived business confidentiality. So, TAWOFE decided to use personal and local networks to introduce the fieldworker to members and non-members of their federation. As a result, the population increased to 367 firms and participants felt free and trusted the researcher sufficiently to provide the information requested openly.

Subsequently, in collaboration with the National Kiswahili Council (in Swahili BAKITA), the questionnaire was translated from English into Swahili, and the two versions were sent to a translator to check for inconsistency who found only minor errors. The corrected Swahili version was later sent to a sample of 10 small business owner-managers in the furniture industry for pre-testing of clarity, comprehension, consistency, and appropriateness of items (validity and reliability).

3.4.1 Differences in profiles between the formal and informal sectors

The survey study consisted of 111 small businesses, 50 firms in the formal sector and 61 firms in the informal sector. A comparison between the respondents’ profiles indicates that the majority of both the entrepreneurs in the formal and informal sectors are male (98.2 percent), with no difference between the formal sector (98.0 percent) and the informal sector (98.4 percent). 95.5 percent of the respondents are in the age group of 21 to 50, with a slight difference between the formal sector (92.0 percent) and the informal sector (98.4 percent). 66.7 percent of the respondents
are married, with hardly a difference between the formal sector (66.0 percent) and the informal sector (67.2 percent).

On education qualifications, a total of 50.4 percent of respondents obtained secondary education or higher degrees, with the formal sector scoring more than double (72.0 percent) than the informal sector (32.8 percent). 40.8 percent of the entrepreneurs acquired vocational training, with the formal sector scoring again more than double (58.0 percent) as opposed to the firms active in the informal sector (26.2 percent). More than half (58.0 percent) of the entrepreneurs attended vocational training in the last five years or more before the survey (55.0 percent from the formal sector versus 63.0 percent from the informal sector).

During the professional course, 98.0 percent of the entrepreneurs studied carpentry showing hardly a difference between the formal sector (100.0 percent) and the informal sector (94.0 percent); the majority (73.0 percent) studied between 1 and 2 years, with the formal sector scoring 66.0 percent versus 88.0 percent in the informal sector. In brief, we can say that entrepreneurs in the formal and informal sectors have more or less similar characteristics, except for their level of education which shows different results for the two sectors. The results indicate that formal entrepreneurs are more educated than the informal entrepreneurs.

With regards to the business profile, the majority of small businesses (77.5 percent) were established after the year 1999: 62.0 percent from the formal sector versus 90.2 percent from the informal sector. Similarly, all firms (100 percent) are working in the manufacturing industry: 100 percent from the formal sector versus 100 percent from the informal sector. The above results confirm that our sampling procedure was in order. Interestingly, all enterprises in the formal and informal sectors were created in the period of five years before the survey of this study, which show that entrepreneurs in the formal and informal sectors acquired enough business experiences before responding to the questionnaire. 64.9 percent of the respondents are the sole proprietors: 56.0 percent in the formal sector versus 72.1 percent in the informal sector. The remaining 35.1 percent are partnerships: 44.0 percent in the formal sector as opposed to 27.9 percent in the informal sector. This means that mostly the questions were responded by entrepreneurs with authority, and therefore, the results add significant validity to the findings. Also, all firms in the formal sector have a permanent address versus only 13.1 percent of the firms in the informal sector. The majority of the businesses (78.4 percent) hired business premises with hardly a difference
between the formal sector (78.0 percent) and the informal sector (78.7 percent). Further, 96.0 percent of the entrepreneurs in the formal sector were found to be transparent by inviting the third party to witness the premises agreement versus 6.6 percent in the informal sector. And 82.0 percent of the entrepreneurs from the formal sector were involved in keeping financial records versus 8.2 percent of the entrepreneurs from the informal sector. The two factors mentioned above attracted financial institutions in a way that 74.0 percent of the formal entrepreneurs secured loans outside their local areas versus 3.3 percent in the informal sector.

Concerning firm size, the formal sector employed 7.2 people on average versus 6.6 people that are employed by firms in the informal sector. 80.8 percent of them are fulltime; for the formal sector the scores were 76.4 percent and for the informal sector the scores were 85.5 percent. 19.2 percent are part-time employees; 23.6 percent in the formal sector and 14.5 percent in the informal sector. The absence of significant differences in the number of people that are employed in the two sectors may be regarded as intriguing. The results of insignificant difference on employment average between the formal and informal sectors can be explained by two reasons. First, the small sample collected from the formal sector (50) compared to informal sector (61), and second, the majority of the owner-managers in the informal sector hired part-time employees on the basis of specific assignments without keeping records of the exact number of part-time employed. Therefore the actual difference in size between the formal sector and the informal sector could not be identified.

3.5 Estimation and analysis

The study adopted non-probability sampling, mainly convenience sampling, because a sampling frame could not be established (unreliable database), because of difficulties in obtaining individual cases (some of the entrepreneurs from the formal sector were not willing to be interviewed) and because there were little variations in the population.

As it was explained in Section 3.4, the total number of small businesses initially obtained from TAWOFE was 367. Then, the registration status of all 367 firms was investigated. It was discovered that 60 of them were registered with BRELNA and 307 were not registered. Out of the 60 registered businesses, 50 were found responsive regarding meeting the necessary conditions such as being in the business for three years or more, having a small number of employees (not more than 10) and willing to participate in the study. Similarly, out of 307 unregistered businesses,
244 were willing to collaborate with the study out of which 61 firms in the informal sector were selected by picking one from every four firms. Data were collected using face-to-face interviewing of the owner-managers of the firms selected. The owner-managers of the registered businesses were also asked to show their certificate of registration as evidence of their formal status. Those who possessed the document were categorised as entrepreneurs in the formal sector, while the rest were treated as entrepreneurs in the informal sector.

Before analysis, data from each sector were sequentially arranged according to the year of study and the number of employees. That means, firms with one employee, respectively, for the formal sector and the informal sector were grouped into a first class, followed by a group of firms with two employees, subsequently up to the last group with seven employees. By this arrangement, the classes of firms with 1, 2, 3, 4, 5, 6, and 7 employees, respectively, for the formal sector and the informal sector, for the period of 2008 and 2012 are presented in Table 3.2. Similarly, the different aggregated number per year in Table 3.2 indicate an increase in size of employment for the formal sector and the informal sector between 2008 and 2012. After that, the number of firms between two periods, respectively, for the formal sector and the informal sector, were compared to determine changes in the number of employees, where states of increase, stagnant and decrease were developed.
Table 3.2 The number of firms with 1, 2, 3, 4, 5, 6 and 7 employees, respectively, in the formal sector and the informal sector in the period 2008-2012

<table>
<thead>
<tr>
<th>Class/year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>11</td>
<td>21</td>
<td>11</td>
<td>25</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>29</td>
</tr>
<tr>
<td>2</td>
<td>24</td>
<td>20</td>
<td>26</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
<td>18</td>
<td>18</td>
<td>24</td>
<td>27</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>4</td>
<td>28</td>
<td>28</td>
<td>24</td>
<td>20</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>40</td>
<td>15</td>
<td>40</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25</td>
</tr>
<tr>
<td>6</td>
<td>6</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>24</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>7</td>
<td>0</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>124</td>
<td>109</td>
<td>131</td>
<td>115</td>
<td>144</td>
</tr>
</tbody>
</table>

Three states of growth were created from each two periods by comparing the number of employees from the classes of firms with 1, 2, 3, 4, 5, 6, and 7 employees, respectively, for the formal sector and for the informal sector. The three states changed the scales of the questionnaire from 5 to 3 items. That means, the five Likert scale of the questionnaire were changed into three scales of increase, stagnant and decrease. So, the results from each sector were recorded in the following states: (i) an increase state, where the number of employees in the succeeding year surpassed the precedent years; (ii) a stagnant pattern, where an equal number of employees were observed in both the former and the consecutive years; (iii) a decrease pattern, where the number of employees in the preceding year exceeds the subsequent year. Hence, ten combinations, each with three states of outcomes were formulated as follows: 2008/2009, 2008/2010, 2008/2011, 2008/2012, 2009/2010, 2009/2011, 2009/2012, 2010/2011, 2010/2012 and 2011/2012. Afterward, the combinations were used for the Chi-Square test.

The Chi-Square Test has a number of advantages. First, it is easier to compute the Chi-Square Test rather than some other statistics. Second, it can be used with data that has been measured on a
categorical scale. Further, it can be used to identify the difference between two or more groups, and finally, the test makes no assumptions about the normality distribution of the population. However, the Chi-Square Test does not provide much information about the strength of the relationship of data; the data must be of frequency state and participants must be independent.

3.6 Operationalisation and results

This study employed two techniques such as the Chi-Square Test and the CAGR method to analyse the extent of differences in employment growth between firms in the formal and informal sectors. First, we started with the Chi-Square Test.

The Chi-Square Test for independence is a non-parametric technique used to explore the relationship between two categorical variables. In this study, the variables such as business sectors and growth were used. Each of these variables has two or more categories. Before the Chi Square Test was applied in this study the following general conditions were kept into consideration: the sample size was kept sufficiently large (that means the sample is higher than 30), random samples (the sample were randomly selected), independent observation (each firm contributed data that counted to one cell only, and the data from one firm cannot influence the data from the other), the data is represented using two variables, (business sector and growth, both the business sector and growth are measured using categories, particularly at nominal level), and the data in the cells are indicated in frequencies of counts.

Subsequently, the Chi-Square Test was used to measure significance difference between the formal and informal sectors regarding employment growth based on the outcomes of 10 combinations. The outcomes were treated as observed values. Then, Excel was used to create a Table of expected values from each combination of observed values as shown in Table 3.3.
Table 3.3 Comparison of firms from the formal sector and firms from the informal sector regarding growth

<table>
<thead>
<tr>
<th>Growth changes in periods</th>
<th>Formal sector</th>
<th>Informal sector</th>
<th>Total</th>
<th>T-value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2008/2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>11(15)</td>
<td>14(10)</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>51(44)</td>
<td>22(29)</td>
<td>73</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>4(4)</td>
<td>8(8)</td>
<td>12</td>
<td>0.01*</td>
</tr>
<tr>
<td><strong>2008/2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>20(36)</td>
<td>29(13)</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>98(76)</td>
<td>7(29)</td>
<td>105</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>0(6)</td>
<td>8(2)</td>
<td>8</td>
<td>0.00*</td>
</tr>
<tr>
<td><strong>2008/2011</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>29(34)</td>
<td>43(38)</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>30(24)</td>
<td>22(28)</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>4(5)</td>
<td>6(5)</td>
<td>10</td>
<td>0.14</td>
</tr>
<tr>
<td><strong>2008/2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>21(40)</td>
<td>54(35)</td>
<td>75</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>68(47)</td>
<td>20(41)</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>11(14)</td>
<td>15(12)</td>
<td>26</td>
<td>0.00*</td>
</tr>
<tr>
<td><strong>2009/2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>21(23)</td>
<td>18(16)</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>40(40)</td>
<td>27(27)</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>8(6)</td>
<td>3(5)</td>
<td>11</td>
<td>0.52</td>
</tr>
<tr>
<td><strong>2009/2011</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>26(30)</td>
<td>37(33)</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>24(22)</td>
<td>22(24)</td>
<td>46</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>8(7)</td>
<td>6(7)</td>
<td>14</td>
<td>0.39</td>
</tr>
<tr>
<td><strong>2009/2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>25(36)</td>
<td>44(33)</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>52(37)</td>
<td>20(35)</td>
<td>72</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>4(8)</td>
<td>11(7)</td>
<td>15</td>
<td>0.00*</td>
</tr>
<tr>
<td><strong>2010/2011</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>12(24)</td>
<td>37(25)</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>42(24)</td>
<td>7(25)</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>7(14)</td>
<td>21(14)</td>
<td>28</td>
<td>0.00*</td>
</tr>
<tr>
<td><strong>2010/2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>13(28)</td>
<td>36(21)</td>
<td>49</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>80(57)</td>
<td>20(43)</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>5(13)</td>
<td>17(9)</td>
<td>22</td>
<td>0.00*</td>
</tr>
<tr>
<td><strong>2011/2012</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase</td>
<td>10(15)</td>
<td>17(12)</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>Stagnant</td>
<td>50(40)</td>
<td>24(34)</td>
<td>74</td>
<td></td>
</tr>
<tr>
<td>Decrease</td>
<td>7(12)</td>
<td>15(10)</td>
<td>22</td>
<td>0.00*</td>
</tr>
</tbody>
</table>

*significant at the 0.05 level (2-tailed)
values in parenthesis are expected values

The results from Table 3.3 indicate that seven out of ten periods yielded significant results. The firms in the informal sector scored higher observed values for the increase status than expected
values in all seven significant periods. For instance, in the growth period of 2008/2009, the observed value is fourteen against the expected value of ten. Conversely, the formal sector scored lower observed values than expected values in all seven significant combinations. The results of the Chi-Square Test suggest that firms in the informal sector more often show growth than the firms in the formal sector. Therefore, the hypothesis which states that firms in the formal sector more often show growth than firms in the informal sector is rejected.

The second technique to measure differences in employment growth between firms in the formal and informal sectors was the Compounded Annual Growth Rate (CAGR). Unlike the Chi-Square Test, the CAGR is almost never affected by the variability of growth in the period covered. So, the added value of the CAGR over the Chi-Square Test is that the growth data from the formal and informal sectors were considered to be continuous and compounded, and thus, generate consistent growth rate over five years (https://www.investopedia.com/terms/c/cagr.asp). Therefore, the CAGR formula was used to determine differences in employment growth rate between the formal and informal sectors for a period of 2008-2012. See Figure 3.1 for the CAGR formula. The advantages of using CAGR are grounded on the fact that the method is amongst the best practices for evaluating how different businesses have grown over time, and also, it can be used to compare performance of two different sectors. However, CAGR does not reflect the volatility of the period covered. Therefore, it is not always a reliable indicator of predicting future growth, and it can be manipulated.

The results of the CAGR show that the growth rate of the formal sector and the growth rate of the informal sector was 0.04 and 0.06 respectively. These values were later tested for significance, at 0.05 significance level. The test statistics fell into a non-rejection region of -0.688, which implied that there was no significant difference between the formal and informal sector regarding firm growth. Again, the hypothesis which states that firms in formal sector more often show growth than the firms in the informal sector is rejected.

\[
\text{CAGR} = \left( \frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\frac{1}{\text{# of years}}} - 1
\]

*Figure 3.1 CAGR formula*
3.7 Discussion

This chapter aimed to answer the research question whether firms in the formal sector more often show growth than firms in the informal sector in LDCs, in this case, Tanzania. The literature from advanced economies has been used to gain more knowledge about the concepts of the formal and informal sectors, growth and differences in growth between the formal and informal sectors. Similarly, the literature was used for the development of a questionnaire that was endorsed by experts from Tanzania to be tested in an LDC environment.

The findings from the Chi-Square and CAGR show that our hypothesis “firms in the formal sector more often show growth than firms in the informal sector” is considerably different from our results. In contrast, the results of our study indicate that firms in the informal sector more often show growth than firms in the formal sector. The findings indicate that there are environments where firms in the informal sector show more often growth than their counterparts, particularly in LDCs. That means, theory and practice are different, and therefore, the hypothesis is rejected.

The results seem to provide evidence which indicates that firms in the informal sector more often show growth than the firms in the formal sector (Chen et al., 2002; Becker, 2004; Aggarwal et al., 2011). However, on the basis of this study the gap may be attributed by: an inadequate tax system that creates market opportunities for entrepreneurs in the informal sector, lack of efficiency from entrepreneurs in the formal sector, lack of access to crucial utilities, little relationship between employment indicator and firms in the formal sector as well as shifting from five Likert scales of the questionnaire to three scales of increase, stagnant and decrease used to measure significant value in the Chi-Square Test. The details of lack of agreement between theory and practice are explained below.

First, the results suggest that there is a market opportunity for the informal sector to attract employment. The market opportunity is predominately caused by a low level of enforcement of tax and regulations in LDCs, in this case Tanzania. According to registration procedures, firms in the formal sector are established after fulfilling the registration requirements and getting permission from the government authorities. The necessities such as rent for business premises, business capital, official employment status and number of staff, need to be disclosed to the local authorities and central government for tax purposes. The amount of taxes paid increases the costs of production to the firms in the formal sector, where goods are sold at high prices to compensate
for rent, salaries, and tax expenses. On the other hand, the majority of the entrepreneurs in the informal sector operate their activities in the alleys where government officers cannot recognise them easily. So, costs regarding rent, business tax, and income taxes are evaded, a strategy which allows them to sell their products at lower prices. In this respect, entrepreneurs in the informal sector attract many customers from the local market and employ many part-time employees to meet the orders. Admittedly, low level of enforcement of taxes and regulations tend to lower operations of firms in the formal sector but increases the activities of firms in the informal sector (Dabla-Norris and Inchauste, 2008).

The second reason of unacceptance of our results with theory is explained by lack of efficiencies from employees in the formal sector. The reviewed literature explains that firms in the formal sector are innovative and employ skilled employees in anticipation of increasing production and creating more jobs for the displaced unskilled workers (De Elejalde et al., 2015; Mitra and Jha, 2015). The study findings are a reflection of inefficiencies from employees in the formal sector to the extent that efforts of creating more jobs for skilled and unskilled workers were not observed. Since both formal entrepreneurs and informal entrepreneurs with business experience of more than three years were interviewed, these results evidence that most employees in the informal sector attained job experience and skills from the formal sector. As a result, firms in the informal sector become more productive, create more jobs for unskilled workers and employ them on a part-time and full-time basis.

Similarly, the general perception about RBV is that access to utilities contributes to the growth of the firm particularly in the developed world (Webb et al., 2013). Interestingly, lack of access to crucial services like electricity can be observed as a valuable factor in explaining the growth of firms in the informal sector in the LDCs. The results about furniture manufacturing indicate that enterprises in the formal sector are considerably dependent on electricity for machines operations in furniture production. The massive machines use electricity for leveling and smoothening timber, polishing, etc. So power outage means suspension of furniture production.

On the contrary, entrepreneurs in the informal sector rarely are afforded to buy massive machines for furniture manufacturing; thus, they are deemed to be labour-intensive. Owner-managers in the informal sector more often use manual tools for furniture production. Consequently, production
schedules are not interrupted by power outages. In short, lack of utilities displaces production activities from the formal sector to the informal sector.

Furthermore, the employment method is found to bear little relationship with the formal sector on the measurement of growth. Firms in the formal sector are characterised as capital-intensive, i.e., they depend on technology and skilled labour for production. On the other hand, firms in the informal sector are labour-intensive, i.e., they depend on unskilled artistry for production. In this regards, the employment indicator seems to favour firms in the informal sector as compared to firms in the formal sector. Similarly, the employment method

Finally, it should be noted that the original data used in this chapter were initially measured in five point Likert scales (growth for 2008-2012), and later aggregated into three scales of; increase, stagnant and decrease, and tested using Chi-Square. It is therefore admitted that the change of measurement from five Likert scale to three scale of increase, stagnant and decrease may have influenced our results.

3.8 Concluding remarks

Studies from advanced economies have found that firms in the formal sector more often show growth than the firms in the informal sector. With this view in mind, the majority of the policy makers, government officers, entrepreneurs, and vocational training institutions in LDCs are likely to ascribe overall economic growth as a direct consequence of the growth of firms in the formal sector.

This chapter, however, has shown that growth is a nuanced construct affected by external and internal factors. External factors like low level of enforcement of tax and regulations affect the growth of enterprises in the formal sector by creating market opportunities for the informal sector, while internal factors like employees’ inefficiencies hamper the efforts of creating more jobs for skilled and unskilled workers.

3.8.1 Implications

The findings reported in this chapter make a number of contributions in both theoretical and practical perspectives. In theoretical perspective, the results of this study contribute towards existing entrepreneurship literature by indicating that differences in growth between firms in the
formal and informal sectors can be explained regarding employment growth. Indeed, by using Chi-Square Test and CAGR, the study has shown that the business environments in LDCs favour firms in the informal sector to show more growth than firms in the formal sector.

Second, it should be recalled that this study has used entrepreneurship theory to explain the differences between firms in the formal and informal sectors regarding growth and has developed the measurement scales from the said literature. The findings show that these measurement scales from developed world apply to LDCs (including Tanzania).

With regard to functional areas, the findings of this study show that there is a need for the Tanzanian government to create a database for small businesses. Currently, entrepreneurs in the formal sector are known and heavily taxed regarding business and income taxes, and rent, while entrepreneurs in the informal sector pay nothing to the government. So, with the establishment of the database for the formal sector and the informal sector, the government will have up-to-date records of small businesses in the country, broaden the tax base and both the formal and informal sectors will be taxed proportionately.

Similarly, the Tanzanian government needs to contemplate the possibility of granting tax holidays for new owner-managers for a period of between one and two years from the commencement of enterprises. The tax holidays ought to provide enough time for informal entrepreneurs to adjust for ups and downs of cash flows and therefore entice them to formalize their businesses, and pay taxes. The approach will broaden the tax base and reduce tax rates.

3.8.2 Limitations

Limitations of this study may be observed in five critical areas. First, the research is done in Tanzania which is just one of around 48 LDCs in the world at the time of writing. Second, the literature that is used to build the concepts predominantly applies to advanced economies. Third, the fieldwork is dependent on the respondent’s perception which may lead to biased results. Fourth, the change of the measurement scale from five point Likert scale to three point scale of increase, stagnant and decrease may have contributed to the mixed findings. Five, the measurement used (i.e. employment method) to study firm growth may have contributed to unfavourable results to the firms in the formal sector. Despite the fact that these limitations have already been
considered to some extent in this study, future studies are encouraged to take yet better account of these limitations.

3.8.3 Recommendations for future research

Future studies should focus on applying other growth measures like sales and assets in the investigation of differences between firms in the formal and informal sectors regarding growth, with a particular focus on the effect of external factors and internal factors. The need for statistical based and large-scale empirical studies is also emphasised.
Chapter 4

Differences between formal and informal sector entrepreneurs in terms of their competencies

4.1 Introduction

Studies have acknowledged the role of entrepreneurial competencies in the success and growth of small businesses (Mitchelmore and Rowley, 2010). Scholars on entrepreneurship have found that development of entrepreneurial competencies influences owner-managers’ actions to improve firm performance (Tocher et al., 2012). Chandler and Hanks (1994) argue that the success of a firm depends on the entrepreneur’s ability to identify opportunities from the scanned environment and exploiting them using well-organised strategies.

These strategies, however, change identified opportunities into products when the relevant entrepreneurial competencies are utilised (Ahmad et al., 2010). Through the development of entrepreneurial competencies, an owner-manager accumulates knowledge, and develops experience and skills (Man, 2006) necessary to improve existing human capital in order to identify and exploit more entrepreneurial opportunities (Zahra et al., 1999).

Similarly, the development of entrepreneurial competencies directs the attention of the respective entrepreneur to focus on the growth and success of the enterprise (Chandler and Jansen, 1992). The argument above is supported by Markman and Baron (2003a) who concluded that the positive

9 The sections about differences between the formal sector and the informal sector (Section 4.2.1) and the formal sector and the informal sector in Tanzania (Section 4.2.2) are respectively copied from Section 2.2.2 and Section 2.2.3 of Chapter 2 of this PhD thesis. Furthermore, the first version of this paper was presented at a conference held between May 22 and 24, 2015, and published as: Abdallah, G.K. (2016). Differences between owner-managers of formal and informal small businesses in developing entrepreneurial competencies: Empirical evidence from Tanzania. International Conference on International Business 2015. Proceedings of the 6th and 7th International Conferences on International Business, (p.116-129). Thessaloniki, Greece. The chapter of this PhD thesis is based on the published paper with minor textual adjustments to fit the chapter within the PhD thesis.
changes of firm performance are broadly influenced by the group of entrepreneurial competencies possessed by the owner-managers.

The concept of entrepreneurial competencies has been widely studied in the developed economies (e.g. Abatecola and Uli, 2016; Mitchelmore and Rowley, 2010; Spencer and Spencer, 1993), and the findings indicate that they assist the majority of the entrepreneurs in the formal sector to overcome challenges of the business environment in attaining the growth motive (Boyles, 2012).

This means that there is a link between formal entrepreneurs equipped with entrepreneurial competencies and the growth of small businesses (Abatecola and Uli, 2016; Mitchelmore and Rowley, 2010).

Despite its importance, the development of entrepreneurial competencies has not been well addressed in least developed countries (LDCs), because of the relatively lack of entrepreneurship studies conducted in these regions (Naudé, 2008; Webb et al., 2009, 2013). The observations from few studies in LDCs have shown that the informal sector is strongly considered as a means of job creation and poverty reduction, and the main source of economic activities (Rutherford and Oswald, 2000; Wennekers et al., 2002); and the informal entrepreneurs are determined with the mix of both the necessity and opportunity motivations (Adom and Williams, 2012; Eijdenberg and Masurel, 2013). These findings suggest that entrepreneurs in the informal sector are equipped with substantive entrepreneurial competencies to the extent of becoming the dependent sector in LDCs. Therefore, it is important to understand the differences between entrepreneurs in the formal and informal sectors in LDCs on the basis of development of entrepreneurial competencies regarding personal commitment, personal trust, and own intention in undertaking entrepreneurial activities. Thus, this chapter aims to answer the following research question:

What are the differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors in a least developed country, such as Tanzania?

The development of entrepreneurial competencies is an important topic to investigate. Knowing a specific group of entrepreneurial competencies becomes a step further to understand the strengths and weaknesses of entrepreneurs in the formal and informal sectors. Similarly, the results from the study of entrepreneurial competencies become a basis of explaining the differences between the formal and informal sectors in LDCs (Krauss et al., 2005; Sørensen and Phillips, 2011).
This chapter is explorative. While the aim is to expand the scope of entrepreneurial competencies in an LDC as the perceptions and application of the entrepreneurial concepts vary between advanced economies and the LDCs (Rosa et al., 2006; Naudé, 2008), it is not known if the same entrepreneurial competencies are relevant and valid personal traits that explain the differences between entrepreneurs in the formal and informal sectors in LDCs.

In the next section, a review of the literature on the differences between the formal and informal sectors is discussed, from three points of view, followed by the formal and informal sectors in Tanzania. Then, ten entrepreneurial competencies are considered in detail. Furthermore, the hypothesis is presented, followed by aspects of the fieldwork. The hypothesis is tested, and the results are discussed. The chapter closes with concluding remarks and recommendations for future studies.

4.2 Relevant literature

4.2.1 Differences between the formal and informal sectors

While there is no common definition of what constitutes a “formal” or “informal” sector, (Peattie, 1987; Ulyssea, 2010) scholars have broad agreement that the formal sector and the informal sector can be distinguished from at least three different perspectives: a social-economic perspective, a behavioural perspective, and an institutional perspective (Nelson and De Bruijn, 2005).

In terms of the socio-economic perspective, firms from the informal sector are considered to be small in size, family owned, relying on indigenous resources, low in technology, little possibility to become self-employed, and having no proper wage agreements (Bangasser, 2000; Bigsten et al., 2000; Eijdenberg & Borner, 2017; Williams et al., 2009; Fortin et al., 1997; Kiggundu, 2002; Mutalemwa, 2009; Okpara and Kabongo, 2009; Swaminathan, 1991; Williams, 2014). These characteristics explain what may be regarded as one of the weaknesses of firms from the informal sector (Williams and Nadin, 2012), namely that they are labour intensive, instead of capital intensive (Rauch, 1991). As a result, they have higher transaction costs, they are unable to benefit from economies of scale, and they have low social welfare and low labour productivity (Ferreira-Tiryaki, 2008; Taymaz, 2009; Ulyssea, 2010). Firms from the formal sector, on the other hand, are run by qualified entrepreneurs who aim to meet public services such as courts of law, army, and
police through tax payment and maintaining the quality of services/products for customers (Khayesi et al., 2014; Prado, 2011; Williams, 2014).

In terms of the behavioural perspective, the majority of the entrepreneurs from the informal sector establish firms because of lack of choice (Hechavarria and Reynolds, 2009, p. 418; Koop et al., 2000). So, the entrepreneurs are pushed by necessity motivation to the informal type of businesses (Liñan et al., 2013). The identified push drivers include poverty or economic vulnerability, unemployment, children care, lack of or dissatisfaction with a job, and redundancy amongst others (Abdallah and Eijdenberg, 2019; Cromie, 1987; Eijdenberg and Masurel, 2013; Garba et al., 2013; Williams and Williams, 2012). Interestingly, firms from the formal sector are established by entrepreneurs pulled by opportunity motives, such as to become independent, to increase personal/family income, to fill the gap in the market, and to meet challenges (Aziz and Ayvaz, 2014; Williams and Williams, 2012), so that higher level of success and growth can be achieved (Rahman and Rahman, 2011).

Finally, the institutional perspective defines the informal sector as operating outside the government regulatory system (Eijdenberg et al., 2019; Webb et al., 2013). Entrepreneurs in the informal sector conceal business operations to avoid taxes from government authorities (Mattos and Ogura, 2009). The risk of detection by the tax officials is viewed to be low compared to the cost of time and income spent on formalizing firms from the informal sector (Sookram and Watson, 2008; Eijdenberg et al., 2019). As a consequence, entrepreneurs in the informal sector enjoy low public trust due to inferior goods or services, lack of access to resources (land, credits, etc.), penalties once caught, and the weak rule of law (Ulyssea, 2010). Additionally, they lack financial benefits, like the possibility to purchase materials on credit, to borrow from formal financial institutions, and to cash discounts (Khavul et al., 2009; Ngiba et al., 2009).
In contrast, firms in the formal sector are recognised by the regulatory framework. They have access to public goods and services (e.g., electricity, roads, and water) through the protection of the state organs and property rights, and they have better access to financial entities (Straub, 2005). As a result, formal entrepreneurs can meet customer needs better in terms of quality and quantity (Ihrig and Moe, 2004) and are more efficient (Kathuria and Raj, 2013) in terms of business planning (Baird et al., 1994).

4.2.2 The formal and informal sectors in Tanzania

In Tanzania, the best approach that can be used to distinguish between the formal and informal sectors is the institutional perspective (Nelson and De Bruijn, 2005). Firms in the informal sector operate outside the legal framework and are not registered in the official documents (United Republic of Tanzania, 2008a). Instead, their operations are covered under the umbrella policy of business licenses issued by the local authorities (Nelson and De Bruijn, 2005). Additionally, many of them are household enterprises, not keeping books of accounts and employing only a few workers (Pfander and Gold, 2000). As a result entrepreneurs in the informal sector are working in isolation from each other; are more undeveloped and operate within the casual environment (United Republic of Tanzania, 2008a). In contrast, entrepreneur in the formal sector follow the legal system by registering with the Business Registration and Licensing Agency (BRELA), through which they gain legal status with the associated obligations and acts of compliance to government regulation (Nelson and De Bruijn, 2005). The document is the legal barrier that creates benefits for entrepreneurs in the formal sector as opposed to entrepreneurs in the informal sector in three main areas (United Republic of Tanzania, 2008b), namely property archetypes, business organisation archetypes and expanded market archetypes (United Republic of Tanzania, 2008a).

First, with regard to the property archetypes, enterprises in the informal sector are operating their businesses in the local areas only (United Republic of Tanzania, 2008a). This is because properties owned by entrepreneurs in the informal sector cannot be easily exchanged due to lack of official valuation reports and documents of ownership that can be presented in the court of law (United Republic of Tanzania, 2008a). As a consequence, the entrepreneurs in the informal sector are excluded from the right of access to capital by the formal financial institutions.

Second, the archetypes of the business organisation create a barrier of limited liability which affect many firms from the informal sector (United Republic of Tanzania, 2008a). The limited liability
means there is no legal separation between the informal owner-managers and the enterprises. As a result, owner-managers are exposed to business risk (United Republic of Tanzania, 2008a). Additionally, they do not provide for the division of labour nor contracts between the enterprise and stakeholders (e.g., suppliers, clients, creditors, and investors) (United Republic of Tanzania, 2008a). Hence, stakeholders become reluctant to do business with entrepreneurs from the informal sector because their rights are not protected (United Republic of Tanzania, 2008a).

Concerning the archetypes of the expanded market, enterprises from the informal sector do not protect trade names and trademarks of their products and do not prepare financial statements (United Republic of Tanzania, 2008a). As a result, they fail to obtain credit outside the local area, they cannot operate in a broader jurisdiction and they do not promote their products and financial statements to different magazines and accounting journals respectively (United Republic of Tanzania, 2008c).

4.2.3 Entrepreneurial competencies

The term entrepreneurial competency has a multitude of definitions, some of them are borrowed from the fields of entrepreneurship and management (Lans et al., 2008, 2010). According to Mitchelmore and Rowley (2010), a competency refers to description of knowledge and skills required for the evaluation of performance in a specific activity; it is a description of action or outcome that an entrepreneur should be able to demonstrate.

On the other hand, scholars, particularly in the entrepreneurship field, defined entrepreneurial competencies as individual characteristics encompassing essential personal traits attained; skills and knowledge required for a job or task; motives and abilities along experience embodied; that lead an entrepreneur to superior performance (Baum et al., 2001; Ismail and Meutia, 2012; Katwalo, 2010; Man et al., 2002). Based on the above definitions, the entrepreneurial competencies can be described from different dimensions namely (i) parenting and personality traits; (ii) opportunity refinement, leveraging and championing; (iii) personal and familiar competencies; (iv) innovation orientation, pro-activeness, risk-taking, and coordination capabilities; (v) visioning and goal-setting, creativity, motivation, internal locus of control, need for independence, need for pro-activeness and self-efficacy (Ahmad et al., 2011; Dimitratos et al., 2013; Hsu et al., 2011; Jain, 2011; Rasmussen et al., 2011; Schmitt-Rodermund, 2004).
Noteworthy, researchers revealed a list of entrepreneurial competencies that empower the owner-managers to struggle and compete effectively with internal and external business environments (Ahmad et al., 2010; Ismael and Muhamed, 2013). A list of these entrepreneurial competencies demonstrate essential personal characteristics such as need for achievement, risk-taking propensity, self-efficacy, tolerance for ambiguity, internal locus of control, goal-setting, tenacity, pro-activity, passion and creativity (Chen et al., 1998; Chun-Mei et al., 2011; Gupta and Bhawe, 2007; Markman and Baron, 2003a; Mitchelmore and Rowley, 2013; Mobarak and Zare, 2012). The entrepreneurial competencies are briefly discussed below how owner-managers from the formal sector are shaped to impacting changes to small businesses compared to owner-managers in the informal sector. In the remainder of this sub-section, these competencies will be discussed in greater detail, starting with need for achievement.

4.2.3.1 Need for achievement

The entrepreneur’s need for achievement is based on the ability to offer products or accomplishing identified organising methods better and faster than any competitors (Hansemann, 1998). Owner-managers in the formal sector succeed in difficult situations because they are adaptable to the risky environment (Jain, 2012). So, they struggle to attain business goals successfully and excellently by finding the solutions of the challenges faster than the owner-managers in the informal sector (Deshpandé et al., 2013). Entrepreneurs in the formal sector regard the need for achievement as the most entrepreneurial competency that reflects the inner part of their feelings of meeting customers’ demands better than the counterparts (Fahed-Sreih and Morin-Delerem, 2012; Sibin et al., 2007). Rahman and Rahman (2011) noted that formal entrepreneurs are more successful than informal entrepreneurs because they possess the qualities of the need for achievement such as developing better ways of doing business, carrying out challenging jobs successfully, and solving complex problems related to business. As a result, the formal entrepreneurs set difficult but attainable goals, strive for performance and find novel and creative solutions of business problems (Deshpandé et al., 2013).

4.2.3.2 Risk-taking propensity

Risk-taking propensity can be defined as the willingness of an entrepreneur to engage in activities based on the perception of an uncertain environment of gain or loss (Gartner and Liao, 2012).
Small businesses operate in an unstable business environment of which one cannot predict the outcome with certainty. Scholars have divided views about the risk-taking propensity competency. For example, Norton (1975) grouped respondents into entrepreneurs and non-entrepreneurs and found no difference between them in risk-taking propensity. Therefore, the study disregarded the risk-taking propensity to be a distinguishing factor between the formal and informal entrepreneurs in entrepreneurial competencies development (Brockhaus, 1980). However, the results were criticised according to sample size, the definition of an entrepreneur, and the definition of risk-taking propensity (Stewart Jr and Roth, 2001).

Currently, scholars such as Pines et al., (2012) perceived the risk-taking propensity as an important entrepreneurial competency, especially in industries aiming at novelty and technological advancement. Unlike informal entrepreneurs who tend to be labour-intensive (Rauch, 1991), the formal entrepreneurs are shaped by the risk-taking propensity to acquire new skills and knowledge regarding the exploitation of identified opportunities (Barbosa et al., 2007). By taking the risky activities, formal owner-managers interpret and minimise the risk (Palmer, 1971) through trying over and again until they acquire a sense of responsibility to the business activities and become successful (Nicholson et al., 2005; Saini and Martin, 2009; Schwer and Yucelt, 1984).

4.2.3.3 Self-efficacy

Self-efficacy refers to the strength of an entrepreneur’s confidence to struggle against an uncertain environment in order to meet entrepreneurial goals (Chen et al., 1998). It is an internal conviction that an entrepreneur develops to influence the ability of meeting targets set (Welch Jr, 2013). According to Bandura (1977), self-efficacy originates from four information sources such as emotional arousal, vicarious learning, social persuasion, and performance accomplishment. It is the performance accomplishment that explains the ability of an entrepreneur to meet the target; to ensure growth and survival of small business (Brice Jr and Spencer, 2007).

The majority of the entrepreneurs in the informal sector do not sustain the impact of external threats like technology changes (Kiggundu, 2002), which might be associated with the lack of self-efficacy. The self-efficacy competency empowers entrepreneurs in the formal sector to acquire more knowledge and skills necessary for the identification of entrepreneurial activities (Jha, 2013) and fulfil the performance targets (Mayfield and Mayfield, 2012). The formal entrepreneurs
observe the self-efficacy competency by appraising their own capabilities (Srikanth, 2012) in order to meet the enterprises’ goals set (Mobaraki and Zare, 2012). Urban (2010) concludes that entrepreneurship is not a field of everybody, instead, a profession for formal entrepreneurs who constantly develop skills and enhance commitment to overcome the dynamic nature of the business environment. Definitely, the skills and commitment devoted by entrepreneurs in the formal sector are regarded as the tools for success and growth of their enterprises (Markman and Baron, 2003b). We can say that self-efficacy is among the most important entrepreneurial competencies that discriminate between the entrepreneurs in the formal sector and the entrepreneurs in the informal sector (Chen et al., 1998).

4.2.3.4 Tolerance for ambiguity

The term ambiguity is explained as a word or an expression that is unclear or has multiple meanings, incompleteness, inconsistencies or circumstances of lack of information and uncertainty (Norton, 1975). Tolerance for ambiguity relates to the individual’s behaviour to adapt to circumstances that have unclear or multiple interpretations (Kajs and McCollum, 2009). Studies have shown that entrepreneurs in the formal and informal sectors differ in tolerance for ambiguity due to differences in addressing the uncertainties from the business environment (Foxman, 1976) such as newness of the situation; complexity of the situation; and insolvability of the situation (Kajs and McCollum, 2010). As a consequence, two groups of entrepreneurs arise: first, intolerant entrepreneurs who tend to think that uncertainties are complex and insolvable (entrepreneurs from the informal sector), and second, tolerant entrepreneurs (from the formal sector) who control their anxiety situation and take time to define the new situation in order to find better solutions (Pathak et al., 2009).

4.2.3.5 Internal locus of control

Internal locus of control refers to the entrepreneur’s belief of influence over business outcomes through efforts, skills and ability (Chelariu et al., 2008). In contrast, external locus of control is based on the belief that business outcomes depend on external influences (Okhomina, 2010). Entrepreneurs in the formal sector are shaped with a character of internal locus of control to engage in entrepreneurial activities with the intention of meeting firm growth (Chelariu et al., 2008).
The numerous external sources of information influence formal entrepreneurs to have broad networks (Welsch and Young, 1982) assisting in building confidence. As a result, they control the outcomes of their events through personal actions which stimulate the identification and exploitation of new entrepreneurial opportunities (Lee and Tsang, 2001). On the other hand, entrepreneurs in the informal sector have limited sources of external information, so, the outcome of the business activities depend on the influence from the external environment.

4.2.3.6 Goal-setting

Literature acknowledges that the majority of the owner-managers start their firms without an identified entrepreneurial opportunity, finances, social networks and available market (Hechavarria et al., 2012), but the formal entrepreneurs are gradually shaped by the goal-setting competency to overcome the external business challenges and to become successful. Entrepreneurs in the formal sector consider goal-setting as a fundamental entrepreneurial competency to facilitate budgeting and financial planning necessary for assessing enterprises’ growth (Baum and Locke, 2004; Timmons, 1978). While the majority of the entrepreneurs in the informal sector do not keep business records, the entrepreneurs in the formal sector are guided by the goal-setting competency to enjoy the benefits such as maintaining the relationship between the entrepreneur and the enterprise, keeping the entrepreneur smarter rather than simply harder, keeping the entrepreneur with future-oriented frame of mind, polishing the strategy of the entrepreneur’s ideas with others, providing an inherent motivation, evaluating the performance, and managing the risks and uncertainties of the future (Timmons, 1978).

4.2.3.7 Tenacity

Markman et al., (2005, p. 3) defined tenacity (or perseverance) as ‘a tendency to persist and endure in the face of adversities’. The difficulties faced by owner-managers may originate from personal or family conflict; conflict between partners, customers’ disloyalty; changes in government policies and unreliable information (Van Gelderen, 2012). The majority of the formal entrepreneurs normally choose one of the two ways when they face adversities. Either they struggle to implement the original plans (Maloş, 2011), or, they find an alternative course of action to reach the goal set when the original plan faces difficulties (Markman et al., 2005). Formal entrepreneurs tend to set goals from the available resources in order to meet the growth motive (Hayton and
Kelley, 2006; Morris et al., 2013). In contrast, entrepreneurs in the informal sector operate outside the rule of law (Nelson and De Bruijn, 2005), and with the intention of meeting basic needs (Al-Ghazali and Sadi, 2012; Poschke, 2013). In this regards, informal entrepreneurs lack a fundamental quality of perseverance needed for growth.

4.2.3.8 Pro-activity

Pro-activity is defined as a relatively stable tendency to effect business change through the processes by which formal entrepreneurs have influence to control the business operations (Bateman and Crant, 1993). On the other hand, re-activity is defined as a tendency to simulate entrepreneurial activities and the outcomes depend on the external environments (Bateman and Crant, 1993). Formal entrepreneurs are pro-active because they depend on the acquired skills and knowledge to identify new entrepreneurial opportunities, and they take actions to bring meaningful changes to the customers (Crant, 1996; Prieto, 2010). Formal entrepreneurs formulate prospective strategies consistent with their intention of enhancing innovation to meeting customer demands (Kickul and Gundry, 2002). Thus, a proactive personality is regarded as a motivation; a desire; and intention to initiate entrepreneurial changes to customer needs by the entrepreneurs from the formal sector (Prieto, 2011).

4.2.3.9 Passion

The entrepreneurial competency passion is defined as a strong feeling toward an entrepreneurial activity that a person loves and invests much time and energy in to undertake (Vallerand, 2008). Cardon et al., (2013) explained the nature of the entrepreneurial competency passion as accessible consciousness and intense positive feeling that results from engagement in activities with meaningful and salient self-identity.

While the informal entrepreneurs create enterprises out of choice (Williams and Round 2008), formal entrepreneurs manifest the competency passion by performing three important roles; first, exploring business activities to be done; second, establishing commercial ventures and exploiting identified opportunities; and third, nurturing and maintaining the growth of the enterprises (Cardon et al., 2013); Cardon and Stevens, 2009).
In this regard, passion constantly enhances entrepreneurs from the formal sector to become more focused on firms’ successes (Breugst et al., 2011; Klaukien et al., 2010) by directing their attention and actions toward specified business activities (Chen et al., 2009). The three roles of passion evidence why entrepreneurs from the formal sector contribute significantly to the success of the firms (Haar et al., 2009), and are more creative (Vallerand, 2008) than the entrepreneurs from the informal sector.

4.2.3.10 Creativity

Amabile (1997) defined creativity as the production of novelty ideas to the entrepreneurial activities and as the first step of the innovation process. Through creativity new ideas are born, changes in knowledge is developed (Dreesmann et al., 2014) to encourage external stakeholders especially financers to support the small businesses (Wilson and Stokes, 2005). Informal entrepreneurs are believed to possess low levels of knowledge (Fourati and Affes, 2011) and thus face challenges of developing new ideas to adapt to businesses changes (Anderson, 2017; Çekmecelioğlu and Günsel, 2013). Formal entrepreneurs on the other hand use creative thinking (Amabile, 1996) to diverge their scope of thinking to capture hidden information and generate new ideas (Gielnik et al., 2012). Hence, the new ideas lead entrepreneurs from the formal sector to identify new entrepreneurial opportunities, and create more chances of success for the enterprises (Gielnik et al., 2012).

4.3 Hypothesis and research methods

Development of entrepreneurial competencies empowers entrepreneurs in the formal sector to become more strategic and future-oriented than the entrepreneurs in the informal sector (Kock et al., 2008; Kock and Ellsström, 2011; Morris et al., 1996). Scholars (e.g. Peltonen, 2015; Bacigalupo et al., 2016) noted that entrepreneurial competencies are not inborn attributes, but are related with knowledge, skills and attitude acquired by a person necessary to initiate and engage in entrepreneurial activities at a high standard. Attendance to training programs by entrepreneurs in the formal sector provides them with modern skills and facilities needed for managing small businesses through interaction between top management, staff and other relevant parties (Sudana et al., 2019; Tehseen et al., 2019; Meyer et al., 2019;). This means that training promotes
communication and interaction between members within the formal sector to access resources, exchange knowledge for acquisition of modern technology and skills enhancement (Halberstadt et al., 2019; Middleton et al., 2019; Ng and Kee, 2018; Ng et al., 2019; Zacca and Dayan, 2018; Liu and Chen, 2018). As concluded by Yazdanfar et al., (2014) and Ferreras-Garcia et al., (2019), competencies development promotes innovation and increases job satisfaction to employees as well as business growth in the formal sector because the perception of the management to attain competencies is covered in their business plans.

On the other hand, studies have noted that entrepreneurs in the informal sector operate in hidden areas, outside the regulatory framework (Cling et al., 2012; Schneider et al., 2010; Torosyan and Filer, 2014), related with lack of knowledge as well as skills needed for competencies development Eggoh et al., 2015; Gielnik et al., 2014). The low levels of entrepreneurial competencies forces entrepreneurs in the informal sector to focus on necessity motivations (Eijdenberg, 2016; Eijdenberg et al., 2019) instead of opportunity motivations associated with growth motives (Abdallah & Eijdenberg, 2019; Eijdenberg & Borner, 2017). Similarly, the low quality products and low turnovers facing the majority of the entrepreneurs in the informal sector seems to be the outcome of low creative thinking capability. Therefore, it can be concluded that entrepreneurial competencies influence entrepreneurs in the formal sector to successfully achieve firms’ growth targets (Vázquez-Burgete et al., 2012) and maintain businesses performances (Colombo and Grilli, 2005; Liedholm, 2002; Georgellis et al., 2000) compared to entrepreneurs in the informal sector. Thus, the chapter evaluates the following hypothesis:

Hypothesis: Entrepreneurs in the formal sector have better developed their entrepreneurial competencies than entrepreneurs in the informal sector.

4.3.1 Fieldwork

The fieldwork was conducted between November, 2013 and February, 2014, in Dar Es Salaam, Mbeya, Mtwara, and Singida regions (Tanzania). These regions were selected because the researcher has a good network with the contractors (here referred to as entrepreneurs/owner-managers) from the building construction industry. Thus it was relatively easy to collect data. Before the actual fieldwork, the researcher consulted the Contractors Registration Board (CRB) to gain more knowledge of contractors’ registration procedures. The CRB is a regulatory board that was established by an Act of Parliament no. 17 of 1997 (as amended in 2008), charged with the
responsibilities for registration, regulation, and development of contractors in Tanzania. In total there are five types of contractors, namely building contractors, civil works contractors, mechanical contractors, electrical contractors and specialist contractors.

According to CRB, the procedures for registration begin with a person or group of persons to apply for CRB registration. The application must be accompanied with a certified copy of Memorandum and Articles of Association from Business Registration and Licensing Agency (BRELA) in case of a limited liability company or an accredited copy extract from BRELA in case of partnership or sole proprietorship. Having fulfilled the above requirements set out under CRB-F1 and CRB-F2, the board issues a CRB registration certificate for the requested category. CRB has categorized contractors into seven classes for building, civil, electrical and mechanical constructions. Class one is the highest category dealing with all heavy projects, and contractors have unlimited volume of constructions. Class seven is the least category dealing with small projects with a restricted volume of constructions.

The limited volume of construction is determined with low authorized capital, small number of staff and experts, and small equipment. So, in this chapter, a comparison was made between the class seven (the last category) of building contractors referred to entrepreneurs in the formal sector, and unregistered building contractors referred to entrepreneurs in the informal sector. The two groups of the registered contractors and unregistered contractors were used to investigate differences between entrepreneurs in the formal and informal sectors in developing entrepreneurial competencies. Then, qualitative interviews were conducted with officers from CRB, BRELA, and the Property and Business Formalisation Program (in Swahili MKURABITA) about the entrepreneurial competencies in Tanzania. Further, we discussed a long list of entrepreneurial competencies from literature with the 20 experts; 15 from CRB and 5 from MKURABITA, to remain with a list of entrepreneurial competencies appropriate to the Tanzanian environment.

Finally, it was agreed upon which competencies to be included in the questionnaire, based on the findings of a pilot study of ten entrepreneurs in the informal sector randomly selected from the entrepreneurs of the building construction industry. Subsequently, in collaboration with the National Kiswahili Council (BAKITA), the questionnaire was translated from English into Swahili, and the two versions were sent to a translator who found only minor errors. The corrected Swahili version was later sent to a sample of 10 informal entrepreneurs in Dar Es Salaam region.
for pre-testing of clarity, comprehension, consistency, and appropriateness of items (validity and reliability). Also, during the pilot study, the researcher trained four research assistants how to interview and familiarised them with all the data collection procedures. The researcher was accompanied with one research assistant in each field area.

The actual fieldwork started at Dar Es Salaam region with 10 informal entrepreneurs selected randomly from construction sites, followed by Singida region. At Singida, the researcher managed to reach out to 50 registered building contractors (owner-managers in the formal sector). However, 35 of them were ready to be interviewed and fulfilled necessary conditions. This included being in business for at least five years and having a small number of employees. For unregistered building contractors (owner-managers in the informal sector), out of 155 owner-managers accessed, 105 were willing to be interviewed and met the conditions set out by the study. The researcher selected 35 unregistered owner-managers on the basis of one firm for every three firms. The second region for the fieldwork was Mbeya. In this city, the researcher accessed 60 registered contractors from the category seven, out of which 50 were ready to participate with the study. Notably, 35 owner-managers from the formal sector met the criteria mentioned above and were interviewed. Regarding the informal owner-managers, the researcher assessed 150 entrepreneurs, out of which 110 met the specified above conditions and were ready to be interviewed. Again, the study selected 35 owner-managers on the basis of one for every three firms. Last, the researcher collected data from Mtwara region.

Using the same procedures of Singida and Mbeya, the study managed to interview 10 formal entrepreneurs (in this case registered building contractors) and 10 informal entrepreneurs (in this case unregistered building contractors). The study accessed a small number of owner-managers because Mtwara region is less developed, thus few entrepreneurs choose the area as their center for businesses. The number of entrepreneurs in the respective regions is indicated below in the brackets as follows: Dar Es Salaam 10 (all informal entrepreneurs), Singida 70 (35 formal entrepreneurs; 35 informal entrepreneurs), Mbeya 70 (35 formal entrepreneurs; 35 informal entrepreneurs), Mtwara 20 (10 formal entrepreneurs; 10 informal entrepreneurs).

In general, data in all four regions were collected by using face to face interviews. The owner-managers of the registered businesses were also asked to show their CRB certificates as evidence
of their formal status. A total of 170 entrepreneurs (80 from the formal sector and 90 from the informal sector) were interviewed based on the measurement instrument in the Table 4.1.
## Table 4.1 Measurement instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Dimension (scale)</th>
<th>Origin of the item</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demographic information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is your gender</td>
<td>(1: Male; 2: Female)</td>
<td>Standard items</td>
</tr>
<tr>
<td>What is your age group</td>
<td>(1: Below 20; 2: 21-30; 3: 31-40; 4: 41-50; 5: 51-60; 6: over 60)</td>
<td></td>
</tr>
<tr>
<td>What is your marital status</td>
<td>(1: Married; 2: Unmarried/Single; 3: Widow/Widower; 4: Divorced; 5: Separated)</td>
<td></td>
</tr>
<tr>
<td>Please indicate the highest level of education you have successfully attained</td>
<td>(1: Never attended School; 2: Primary School; 3: Ordinary level Secondary School; 4: Advanced level Secondary School; 5: Certificate/Diploma; 6: Advanced Diploma/Bachelor degree; 7: Master degree; 8: Other (specify))</td>
<td></td>
</tr>
<tr>
<td>Have you attended any vocational training</td>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
<tr>
<td>Please indicate the category that describes the period you have received training</td>
<td>(1: This year; 2: 1 year ago; 3: 2 years ago; 4: 3 years ago; 5: 4 years ago; 6: 5 to 10 years ago; 7: over the last 10 years)</td>
<td></td>
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<tr>
<td><strong>Business Characteristics</strong></td>
<td></td>
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<tr>
<td>When was your business was established</td>
<td>(Year)</td>
<td>Standard items</td>
</tr>
<tr>
<td>What is your primary business activity</td>
<td>(1: Retail; 2: Service; 3: Wholesale; 4: Manufacturing; 5: Tailoring; 6: Other (specify))</td>
<td></td>
</tr>
<tr>
<td>Please indicate the type of ownership of your firm</td>
<td>(1: Sole Proprietorship; 2: Partnership; 3: Corporation; 4: Other (specify))</td>
<td></td>
</tr>
<tr>
<td>Does the firm own registered permanent address?</td>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
<tr>
<td>If yes, indicate below</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is the business premise(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If hired who witnessed the agreement</td>
<td>(1: Local authority leader; 2: Public Prosecutor; 3: Any other legal entity)</td>
<td></td>
</tr>
<tr>
<td>Is your business establishment authorized by</td>
<td>(1: Local authority Yes/No; 2: Business Registration and Licensing Agency (BRELA) Yes/No; 3: Both of 1 and 2 Yes/No; 4: None of the above Yes/No)</td>
<td></td>
</tr>
<tr>
<td>Do you keep financial records as per accounting standards</td>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
<tr>
<td>Have you applied and received a loan from financial institutions outside your local area</td>
<td>(1: Yes; 2: No)</td>
<td></td>
</tr>
</tbody>
</table>

*The table continues on the next page*
<table>
<thead>
<tr>
<th>Need for achievement</th>
<th>I do not give up until I offer the products I have identified.</th>
<th>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>My success is determined by accomplishing difficult ways of organizing methods</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>If people have failed to meet the need of a specific customer group, I never try</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td>Risk-taking propensity</td>
<td>Even though people are discouraged on commissioning a construction process, I keep on trying</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>Satisfaction is measured by offering products I have identified</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I do not devote much time to identifying products, customers and construction processes</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td>Self-efficacy</td>
<td>When I plan to offer an identified product, I have to fulfil my target</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I usually keep on changing the technology until I manage to make an offer</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>If I fail to exploit the identified opportunity I give up</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>I get pretty anxious when I cannot make an offer of a product I have identified</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I believe every problem has a solution</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I disagree about challenges as a way of learning</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td>Internal locus of control</td>
<td>My actions determine my results</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I always depend on my plan for my actions</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td></td>
<td>I get what I want because of my hard working</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
<tr>
<td>Goal-setting</td>
<td>I spend much time to identify construction processes</td>
<td>(1: Strongly disagree; 2: Disagree; 3: Neither disagree nor agree; 4: Agree; 5: Strongly agree)</td>
</tr>
</tbody>
</table>

The table continues on the next page
<table>
<thead>
<tr>
<th>Tenacity</th>
<th>Pro-activity</th>
<th>Passion</th>
<th>Creativity</th>
</tr>
</thead>
<tbody>
<tr>
<td>I normally prepare a construction budget before I start the assignment</td>
<td>If I start to commission construction processes, I fight until I finish</td>
<td>I feel sick if I do not offer what I have identified</td>
<td>I like to offer products in different ways</td>
</tr>
<tr>
<td>My targets are not influenced by customers</td>
<td>Leaving an identified opportunity is a sign of failure in my life</td>
<td>I feel proud of offering products to customers/customer groups I have identified.</td>
<td>I often design my products through images I have identified</td>
</tr>
<tr>
<td>Tenacity</td>
<td>When I decide to offer products to a customer group, I never change</td>
<td>I treat the challenges of identification processes as my events</td>
<td>I often copy the ideas of others</td>
</tr>
<tr>
<td>Adapted from Isaga (2012); literature and expert interviews</td>
<td>Adapted from Isaga (2012); literature and expert interviews</td>
<td>Adapted from Isaga (2012); literature and expert interviews</td>
<td>Adapted from Isaga (2012); literature and expert interviews</td>
</tr>
</tbody>
</table>
4.3.2 Demographic characteristics

This chapter focuses on the extent of differences in developing entrepreneurial competencies between entrepreneurs in the formal and informal sectors in LDCs, in this case Tanzania. For that purpose, a distinction was made between the formal entrepreneurs and the informal entrepreneurs regarding the gender, age, marital status, education levels including vocational training, and duration of the study. The results of the demographic characteristics are presented below.

A sample population of this study comprised of 80 entrepreneurs in the formal sector and 90 entrepreneurs in the informal sector. A comparison between the respondents’ profile shows that the majority of the entrepreneurs are male (92.9 percent), with a slight difference between entrepreneurs in the formal sector (91.3 percent) and entrepreneurs in the informal sector (94.4 percent). 90.6 percent of the respondents were in the age group of 21-50: formal entrepreneurs 85.1 percent versus informal entrepreneurs 95.5 percent. The rest of the groups have minor impact (9.4 percent): formal sector 14.9 percent versus informal sector 4.5 percent. On the marital status, 85.3 percent of the respondents are married, with a slight difference between the entrepreneurs in the formal sector (93.8 percent) and the entrepreneurs from the informal sector (77.8 percent). The aggregate percentages of the single, widows/widowers and the divorced were almost negligible (14.7 percent) with entrepreneurs in the formal sector scoring 6.3 percent versus the entrepreneurs in the informal sector 22.2 percent. On education level, 67.0 percent of respondents obtained secondary education or higher degrees, with entrepreneurs in the formal sector scoring almost double (93.9 percent) over the entrepreneurs in the informal sector (43.4 percent). The rest (32.9 percent) attended primary education only: formal sector 6.1 percent versus informal sector 56.7 percent. 37.6 percent of the respondents supplemented their knowledge with vocational training, with entrepreneurs in the formal sector scoring again more than double (55.0 percent) than the entrepreneurs in the informal sector (22.2 percent). Most of the entrepreneurs (96.3 percent) attended vocational training more than three years past before the survey: 92.7 percent in the formal sector versus 88.6 percent in the informal sector. In brief, we can say that entrepreneurs in the formal sector and the entrepreneurs in the informal sector have more or less similar characteristics, except in their level of education which shows different results between the formal and informal sectors. The results indicate that entrepreneurs in the formal sector are more educated than the entrepreneurs in the informal sector.
Results with regards to the business profile show that the majority of businesses (87.5 percent) were created between 2000 and 2009: 84.3 percent in the formal sector versus 80.4 percent in the informal sector; the remaining businesses (12.5 percent) were created before 2000: 15.7 percent in the formal sector versus 19.6 percent in the informal sector. This means that all the businesses in both the formal and informal sectors were created more than 5 years before the survey, indicating that respondents from the sample acquired enough business experience before responding to the questionnaire. All businesses in the formal and informal sectors are working in the construction industry (100.0 percent), which confirms that our sampling procedure was in order. 15.9 percent of the respondents are the sole proprietors: 6.2 percent in the formal sector versus 24.4 percent in the informal sector; 68.2 percent are in partnerships: 60.0 percent of the firms in the formal sector as opposed to 75.6 percent of the firms in the informal sector. The remaining of the respondents (15.9 percent) created other enterprises: 33.8 percent in the formal sector versus 0.0 percent in the informal sector. Also, all (100 percent) enterprises in the formal sector have a permanent address (versus only 3.1 percent of the enterprises from the informal sector).

Further, the majority of the businesses in the sample (87.6 percent) hired business premises, with hardly a difference between firms in the formal sector (88.8 percent) and firms in the informal sector (86.7 percent). Also, 98.0 percent of the entrepreneurs in the formal sector were found to be transparent by inviting the third party to witness the premises agreement versus only 8.6 percent of the entrepreneurs in the informal sector. Similarly, 82.0 percent of the entrepreneurs in the formal sector kept financial records versus 8.2 percent of the entrepreneurs in the informal sector, which justifies the reasons why the majority (78.0 percent) of the entrepreneurs in the formal sector managed to receive credits outside the local area versus 2.6 percent of the entrepreneurs in the informal sector.

4.4 Results

The purpose of this chapter is to investigate the differences of entrepreneurial competencies development between owner-managers in the formal sector and owner-managers in the informal sector. A questionnaire for the entrepreneurial competencies development was prepared to cover 10 entrepreneurial competencies, each with three items, one of them negatively worded to prevent response bias. Entrepreneurs in the formal and informal sectors were asked to indicate the status
of agreement on a 5-point Likert scale. The scales were in the option of: strongly disagree/disagree/neither agree nor disagree/agree/strongly agree. Although this approach is thought to be biased, the researcher tried to minimise the risk by working with 3 items in 1 entrepreneurial competency.

After completing data entry and checking for missing data, the researcher manipulated the data by using SPSS. The researcher reversed negatively worded items, a step that allowed the study to proceed to calculate means and standard deviations of all entrepreneurial competencies. The overview of means and standard deviations in Table 4.2 indicate that all entrepreneurial competencies are varying from 4.68 to 4.28, according to the owner-managers in the formal sector. This range from 4.68 to 4.28 coincides with the scale of strongly agree and agree in the questionnaire.

<table>
<thead>
<tr>
<th>Entrepreneurial competences</th>
<th>Sample size</th>
<th>Mean</th>
<th>Standard deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for achievement</td>
<td>80</td>
<td>4.48</td>
<td>1.44</td>
</tr>
<tr>
<td>Risk-taking propensity</td>
<td>80</td>
<td>4.50</td>
<td>1.33</td>
</tr>
<tr>
<td>Self-efficacy</td>
<td>80</td>
<td>4.41</td>
<td>1.50</td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>80</td>
<td>4.36</td>
<td>1.61</td>
</tr>
<tr>
<td>Internal locus of control</td>
<td>80</td>
<td>4.68</td>
<td>1.10</td>
</tr>
<tr>
<td>Goal-setting</td>
<td>80</td>
<td>4.38</td>
<td>1.55</td>
</tr>
<tr>
<td>Tenacity</td>
<td>80</td>
<td>4.33</td>
<td>1.54</td>
</tr>
<tr>
<td>Pro-activity</td>
<td>80</td>
<td>4.30</td>
<td>1.65</td>
</tr>
<tr>
<td>Passion</td>
<td>80</td>
<td>4.60</td>
<td>1.00</td>
</tr>
<tr>
<td>Creativity</td>
<td>80</td>
<td>4.28</td>
<td>1.55</td>
</tr>
</tbody>
</table>

Similarly, the means and standards deviations in Table 4.3 indicate that all entrepreneurial competencies are varying from 4.12 to 3.69 according to owner-managers in the informal sector. This range from 4.12 to 3.69 reflects the scale of agree to neither agree nor disagree with the questionnaire.
Therefore, it is apparent that entrepreneurs in the formal sector developed and rated entrepreneurial competencies on higher scales than entrepreneurs in the informal sector. The dispersion in means between the owner-managers in the formal and informal sectors indicates differences in perception of entrepreneurial competencies development between the formal and the informal sectors.

Likewise, the means of the entrepreneurial competencies development from Table 4.2 show that internal locus is top rated by entrepreneurs in the formal sector followed with passion, risk-taking propensity, need for achievement, self-efficacy, goal-setting, tolerance for ambiguity, tenacity, pro-activity and creativity. On the other hand, entrepreneurs in the informal sector have cumulatively rated internal locus of control, tenacity, passion, need for achievement, tolerance for ambiguity, goal-setting, risk-taking propensity, creativity, self-efficacy and pro-activity in Table 4.3.

The unmatched arrangement of the entrepreneurial competencies from Table 4.2 and Table 4.3 indicates differences in perception between owner-managers in the formal sector and owner-managers in the informal sector respectively. Therefore, the results of dispersion of means and inconsistence with the order of entrepreneurial competencies between the formal and informal sectors gave the study the basis to test the internal consistency.
The Cronbach’s alpha was used in this study to measure the scale’s internal consistency for both the formal and informal sectors. The results in Table 4.4 of Cronbach’s alpha combined indicate that all entrepreneurial competencies have an acceptable internal consistency value of 0.6 and above. In general, these values confirm that the chosen measurement instrument is reliable with a sample.
<table>
<thead>
<tr>
<th>Entrepreneurial Competences</th>
<th>Sector</th>
<th>Sample Size from each sector</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Cronbach’s alpha from each sector separately</th>
<th>Cronbach’s alpha combined</th>
<th>Test value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Need for achievement</td>
<td>Formal</td>
<td>80</td>
<td>4.48</td>
<td>1.44</td>
<td>0.8</td>
<td>0.8</td>
<td>3.18 n.a.</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.83</td>
<td>1.19</td>
<td>0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-taking propensity</td>
<td>Formal</td>
<td>80</td>
<td>4.50</td>
<td>1.33</td>
<td>0.7</td>
<td>0.8</td>
<td>3.74***</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.73</td>
<td>1.35</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-efficacy</td>
<td>Formal</td>
<td>80</td>
<td>4.41</td>
<td>1.50</td>
<td>0.8</td>
<td>0.8</td>
<td>3.14***</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.70</td>
<td>1.44</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tolerance for ambiguity</td>
<td>Formal</td>
<td>80</td>
<td>4.36</td>
<td>1.61</td>
<td>0.8</td>
<td>0.8</td>
<td>2.58***</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.76</td>
<td>1.41</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal locus of control</td>
<td>Formal</td>
<td>80</td>
<td>4.68</td>
<td>1.10</td>
<td>0.4</td>
<td>0.7</td>
<td>1.34 n.a.</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>4.12</td>
<td>1.47</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goal setting</td>
<td>Formal</td>
<td>80</td>
<td>4.38</td>
<td>1.55</td>
<td>0.8</td>
<td>0.8</td>
<td>2.71***</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.76</td>
<td>1.41</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tenacity</td>
<td>Formal</td>
<td>80</td>
<td>4.33</td>
<td>1.54</td>
<td>0.7</td>
<td>0.7</td>
<td>2.02 n.a.</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.90</td>
<td>1.19</td>
<td>0.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pro-activity</td>
<td>Formal</td>
<td>80</td>
<td>4.30</td>
<td>1.65</td>
<td>0.8</td>
<td>0.8</td>
<td>2.7***</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.69</td>
<td>1.23</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Passion</td>
<td>Formal</td>
<td>80</td>
<td>4.60</td>
<td>1.00</td>
<td>0.4</td>
<td>0.8</td>
<td>4.49 n.a.</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.84</td>
<td>1.20</td>
<td>0.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Creativity</td>
<td>Formal</td>
<td>80</td>
<td>4.28</td>
<td>1.55</td>
<td>0.7</td>
<td>0.8</td>
<td>1.22</td>
</tr>
<tr>
<td></td>
<td>Informal</td>
<td>90</td>
<td>3.71</td>
<td>1.26</td>
<td>0.7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Significant at the 0.1 level (2-tailed)

**Significant at the 0.05 level (2-tailed)

***Significant at the 0.01 level (2-tailed)

n.a. means not applicable

However, to answer the research question whether differences in the development of entrepreneurial competencies between the owner-managers in the formal sector and the owner-managers in the informal sector exist, the researcher measured Cronbach’s alpha for the
entrepreneurial competencies from the formal sector and the informal sector separately. Specifically, the study measured the differences of perceptions in entrepreneurial competencies between entrepreneurs in the formal sector and entrepreneurs in the informal sector. It is known that Cronbach’s alpha from separate groups tend to be smaller than the value from the combined groups. On the basis of this study, the results of entrepreneurial competencies from Table 4.4 were classified into three groups.

First, the group of four competencies which include entrepreneurial skills such as passion, need for achievement, tenacity and internal locus of control was identified. These competencies indicated a Cronbach’s alpha of below 0.6 in one of the two sectors. Hence, they were dropped for further analysis at this stage.

Second, the entrepreneurial competency creativity which indicated Cronbach’s alpha of 0.7, possessed a T-value that was not significant. In fact, the result of entrepreneurial competency creativity meant that owner-managers from both the formal and informal sectors had the same perception about creativity.

Finally, a group of five competencies which have Cronbach’s alpha of 0.6 and above. These include the entrepreneurial competencies risk-taking propensity, self-efficacy, goal-setting, proactivity, and tolerance for ambiguity. The five competencies were used in this study to test the differences between the formal sector and the informal sector at 1% significant level as shown in Table 4.4. In general, it can be said that 4 out of 10 competencies were not testable due to the low Cronbach’s alpha; one competency (creativity) was not in line with the hypothesis; and five out of ten competencies indicated that entrepreneurs in the formal sector have developed their entrepreneurial competencies more than entrepreneurs in the informal sector. Therefore, on the basis of this chapter the hypothesis that entrepreneurs in the formal sector have better developed their entrepreneurial competencies than entrepreneurs in the informal sector is not rejected.

4.5 Discussion

The purpose of this chapter was to determine whether there is any significant difference between entrepreneurs in the formal sector and the entrepreneurs in the informal sector in developing entrepreneurial competences in LDCs, in this case, Tanzania. In general, the results indicate that entrepreneurs in the formal sector score higher on entrepreneurial competencies than the
entrepreneurs in the informal sector. Specifically, our results add to the findings of previous literature (see Peltonen, 2015; Bacigalupo et al., 2016; Zacca and Dayan, 2018; Liu and Chen, 2018) that entrepreneurs in the formal sector possess higher developed entrepreneurial competencies to perform entrepreneurial activities than entrepreneurs in the informal sector. The possible explanation for these results could be trainings attended by the former to improve knowledge, skills and entrepreneurial competencies. In Tanzania, all members registered by the Construction Registration Board (CRB) are required to attend annual engineers’ days to discuss, amongst others, new regulations and knowledge from other construction boards in the world. Similarly, registered contractors are required by CRB to attend seminars, workshops, short courses, and national and international exhibitions conducted by international institutions and government agencies to improve their skills and competencies (Halberstadt et al., 2019; Middleton et al., 2019; Ng et al., 2019; Yazdanfar et al., 2014; Ferreras-Garcia et al., 2019). Conversely, entrepreneurs in the informal sector are mostly neglected by government authorities, such as CRB, which limits their level of knowledge and skills as well as competencies development.

Further, the results are striking in two areas. First, four out of ten competencies showed a Cronbach’s alpha value of below 0.6 in one of the two sectors. Second, there is no significant difference between entrepreneurs in the formal sector and entrepreneurs in the informal sector regarding the entrepreneurial competency creativity. That means the entrepreneurs in the formal sector and the entrepreneurs in the informal sector tend to develop the entrepreneurial competency creativity at the same level. The reasons for low internal consistency with four competences and non-significant result with competency creativity are discussed below.

Regarding four entrepreneurial competencies scoring Cronbach’s alpha value of below 0.6 in one of the two sectors, one possible explanation could be the regional context of the fieldwork. Our entrepreneurial competencies were defined and explained using literature from the advanced economies. Even items of subscales were stated from the same advanced economies. Although the study constructed subscales statements using simple English language that was translated into simple Swahili language, and endorsed by experts from Tanzania, statements for subscales from passion, need for achievement, tenacity and internal locus of control were possibly reflecting the different cultural context in which the study took place. In this respect, it can be suggested that
low internal consistencies from these four competencies might be contributed by the cultural differences between the advanced economies and the four regions of the fieldwork in Tanzania.

Concerning the entrepreneurial competency creativity scoring non-significant difference between the formal and informal sectors, this can be associated with the education system at primary level and secondary level in Tanzania, and the state policies. Soon after the launch of the Arusha declaration in 1967, the government of Tanzania regulated most of the economic activities and sources of production through nationalisation of industries, banks, and corporations. Enterprises were not well recognised, because many products were either sold by the government using public corporations or imported by the government. Eventually, due to economic decline, many people lost their jobs in these public corporations. Thus, they started enterprises to provide for their living.

The majority of the entrepreneurs were not skilled with entrepreneurship and emulated neighbouring businesses, although there were also very few entrepreneurs who chose self-employment as a career path. This trend of entrepreneurial activities indicates that the majority of the entrepreneurs in both the formal and informal sectors lack entrepreneurial competencies, especially the competency creativity (Anderson, 2017). Furthermore, education curricula for the primary and secondary schools as well as higher learning institutions in Tanzanian do not recognise the competency creativity, rather than encouraging job seeking. The education systems do not equip students with the required entrepreneurial skills that support self-employment. This is supported by the findings from Mwasalwiba et al., (2012) who found that entrepreneurship curricula taught in higher learning institutions in Tanzania do not address the practical issues affecting self-employment.

4.6 Concluding remarks

The contribution of this chapter was to answer the question whether there is a difference in entrepreneurial competencies between owner-managers in the formal sector and owner-managers in the informal sector.

On the basis of this study, five out of ten entrepreneurial competencies (i.e., risk-taking propensity, self-efficacy, goal-setting, pro-activity, tolerance for ambiguity) show that entrepreneurs in the formal sector score higher in entrepreneurial competencies than the entrepreneurs in the informal sector - as it was expected. Therefore, the hypothesis can in this respect be accepted. Additionally,
four competencies showed internal consistency of below 0.6 in one of the two sectors and the competency creativity indicates non-significant difference between the formal sector and the informal sector, as was extensively discussed in the previous section.

The limitations of this study are fourfold. First, the research was done in Tanzania which is just one of the 48 LDCs in the world. Second, the literature that is used to build the concepts predominantly applies to developed countries. Third, the fieldwork is dependent on the respondent’s perception which may lead to biased results. Fourth, cultural differences between the developed countries and LDCs, in this case Tanzania, might have influenced the results. Despite the fact that these limitations have already been considered to some extent in this study, future studies are encouraged to take yet better account of these limitations.

In light of the above, future studies could focus on three areas. First, the scope of the study can be extended to LDCs with a higher numbers of small businesses. Second, in this study, respondents were selected based on purposive sampling. Although precautionary measures were taken to minimise bias, non-probability sampling remains susceptible to sampling bias. Therefore, statistical sampling like random sampling should be applied in future research to minimise sampling bias. Finally, future studies could also focus on explanations why entrepreneurs in the formal sector have better entrepreneurial competencies than entrepreneurs in the informal sector in LDCs.
Chapter 5

Factors motivating entrepreneurs in the informal sector to formalize their businesses

5.1 Introduction

Entrepreneurial motivation has become an important area of study among researchers and practitioners (Estay et al., 2013; Volkema and Wetzel, 2013). The entrepreneurial motivation is defined as instincts driving the behaviour of an entrepreneur towards the creation of a firm (Carsrud and Brännback, 2011; Dawson and Henley, 2012; Hechavarria and Reynolds, 2009; Kirkwood, 2009).

Most studies have so far focussed on the motivations that influence entrepreneurs to start small businesses (Collins et al., 2004; Shane et al., 2003), to gender disparity (Alina, 2010; Chu, 2000; Poels et al., 2012; Williams and Youssef, 2013), to new ventures creation (Barba-Sánchez and Atienza-Sahuquillo, 2012; Van Gelderen and Jansen, 2006), to entrepreneurial endeavours (Jain and Ali, 2012), and to predicting entrepreneurship (Taormina and Kin-Mei Lao, 2007).

Studies on entrepreneurial motivation are focusing on the factors motivating entrepreneurs into joining the informal sector particularly in least developed countries (LDCs; Bennett, 2010; La Porta and Shleifer, 2014; Wells, 2007), and how the entrepreneurs from the informal sector improve their living standards (Abdallah & Eijdenberg, 2019; Gibbs et al., 2014; Manev and Manolova, 2010; Williams and Nadin, 2012; Williams and Round, 2007).

Previous studies on entrepreneurial motivation (Adom and Williams, 2012; Bennett, 2010; Williams and Nadin, 2012) considered the informal sector as a beginning stage for entrepreneurs to participate in economic activities, where they accumulate resources before shifting to the formal sector. These studies, particularly from the developed economies, view the informal sector and the formal sector as interdependent sectors whereby entrepreneurs in the informal sector can easily shift to the formal sector (Oviedo, 2009; Williams and Nadin, 2012). However, studies (Gibbs et al., 2014; Williams and Nadin, 2010) indicate that entrepreneurs, especially in the LDCs, can
possibly venture in the informal sector and remain permanently (“enter” and “stay”), which implies that the informal sector and the formal sector are independent sectors (Oviedo, 2009). In this respect, scholars have associated the informal sector with necessity motivation (akin to push factors) and the formal sector with opportunity motivation (akin to pull factors) (Erikson, 2003).

Amongst the reasons of coupling the informal sector with necessity motivation is the intention of entrepreneurs in the informal sector to create small businesses for meeting basic needs, as a result, the businesses are less likely to grow to improve their living standards (Asah et al., 2015; Benzing and Chu, 2009; Williams, 2007). On the other hand, the formal sector is normally associated with opportunity motivation because entrepreneurs in the formal sector are predominantly influenced by the need to exploit the identified opportunities (see Ben Mahmoud-Jouini et al., 2017; Block and Sandner, 2009; Block and Wagner, 2007; Taormina and Kin-Mei Lao, 2007) to become more independent, to become more flexible and to have a better life. This means that the informal sector and the formal sector are different, identified by mutually exclusive necessity and opportunity motivations.

Studies on entrepreneurial motivation (see Adom and Williams, 2012; Williams and Nadin, 2012) noted that entrepreneurs in the informal sector in LDCs can possibly be motivated by mix motivations akin to “push-pull” motivations. The mix motivations combine both necessity and opportunity motivations (Williams and Williams, 2012; Eijdenberg, 2016). Similarly, the mix motivations enable an entrepreneur to acquire more skills for producing new products/services/processes, improving working conditions and becoming own boss (Alina, 2010; Fínez, 2008). However, apart from the debate on dichotomy or duality of the necessity and opportunity motivations, the area of entrepreneurial motivation which is related to the shift of entrepreneurs from the informal sector to the formal sector (i.e. formalization of their businesses) in LDCs is relatively neglected. Thus, the current chapter attempts to answer the following research question,

What are the factors that motivate entrepreneurs in the informal sector to formalize their businesses in a least developed country, such as Tanzania?

There is a lack of agreement in the literature on the entrepreneurial motivation for the formalization of small businesses, particularly in LDCs (Rosa et al., 2008; Vik and McElwee, 2011). This lack of agreement stems from the fact that entrepreneurial motivation is studied from different
approaches, namely the necessity motivation (Kirkwood and Campbell-Hunt, 2007), the opportunity motivation (Carsrud and Brännback, 2011) and the mix motivation (Eijdenberg et al., 2015; Eijdenberg, 2016; Gray et al., 2006). The three motivations provide different results at different study areas. Similarly, previous studies about entrepreneurial motivation argue that the mutual exclusiveness between necessity motivation and opportunity motivation does not clearly reveal the motivational factors in LDCs (Eijdenberg and Masurel, 2013; Rosa et al., 2006). Therefore, the current study intends to investigate which of these motivations, namely the necessity motivation, the opportunity motivation, and the mix motivation, influence entrepreneurs in the informal sector to shift to the formal sector in LDCs (Achua and Lussier, 2014).

The current study aims to enrich the existing literature on entrepreneurship about the factors motivating entrepreneurs from the informal sector in LDCs to formalize their businesses. While other studies (e.g. Ben Mahmoud-Jouini et al., 2017; Benzing and Chu, 2009; Carlos Pinho and Sampaio de Sá, 2014; Samaratunge et al., 2015; Van Gelderen and Jansen, 2006) focussed on motivations for start-up small businesses, the current study aims to provide evidence to the policy-making personnel of what factors motivate entrepreneurs in the informal sector to shift to the formal sector, and then suggest on the policies related to formalization of small businesses.

Essentially, the study responds to the call of modern scholars who found that life and motivation in LDCs are not static (Rosa et al., 2006; Williams and Nadin, 2012) and therefore more research on entrepreneurship in LDCs is needed to reveal the type of motivation associated with entrepreneurs in the informal sector (Carsrud and Brännback, 2011; Naudé, 2008; Webb et al., 2009, 2013). Furthermore, the study is a follow-up of the report from the International Labour Organization (2002, p. 4) that clearly insists that “the goal is to promote decent work along the entire continuum from the informal to the formal end of the economy, and in a development-oriented, poverty reduction-focused and gender-equitable way”.

The chapter is organised as follows. The first part is a review of the literature on the difference between the formal and informal sectors by using three approaches such as socio-economic perspective, motivation perspective, and institutional perspective. This is followed by a detailed description of the entrepreneurial motivation. The second part presents the fieldwork and methodology of the study, followed by operationalisation and results, and a detailed discussion of
the results. The chapter ends with conclusions, recommendations for future studies, implications, and limitations.

5.2 Relevant literature

5.2.1 Differences between the formal and informal sectors

While there is no common definition of what constitutes a “formal” or “informal” sector, (Peattie, 1987; Ulyssea, 2010) scholars have broad agreement that the formal and informal sectors can be distinguished from at least three different perspectives: a social-economic perspective, a behavioural perspective, and an institutional perspective (Nelson and De Bruijn, 2005).

In terms of the socio-economic perspective, firms in the informal sector are considered to be small in size, family owned, relying on indigenous resources, low in technology, little possibility to become self-employed, and having no proper wage agreements (Bangasser, 2000; Bigsten et al., 2000; Williams et al., 2009; Fortin et al., 1997; Kiggundu, 2002; Mutalemwa, 2009; Okpara and Kabongo, 2009; Swaminathan, 1991). These characteristics explain what may be regarded as one of the weaknesses of firms in the informal sector (Williams and Nadin, 2012), namely that they are labour intensive, instead of capital intensive (Rauch, 1991). As a result, they have higher transaction costs, they are unable to benefit from economies of scale, and they have low social welfare and low labour productivity (Ferreira-Tiryaki, 2008; Taymaz, 2009; Ulyssea, 2010). Firms in the formal sector, on the other hand, are run by qualified entrepreneurs who aim to meet public services such as courts of law, army, and police through tax payment and maintaining the quality of services/products for customers (Prado, 2011).

In terms of the behavioural perspective, the majority of the entrepreneurs in the informal sector establish firms because of lack of choice (Hechavarria and Reynolds, 2009; Koop et al., 2000). So, the entrepreneurs are pushed by necessity motivation to the informal type of businesses (Liñán et al., 2013). The identified push drivers include poverty or economic vulnerability, unemployment, children care, lack of or dissatisfaction with a job, and redundancy amongst others (Cromie, 1987; Garba et al., 2013; Williams and Williams, 2012). Interestingly, firms in the formal sector are established by entrepreneurs pulled by opportunity motives, such as to become independent, to increase personal/family income, to fill the gap in the market, and to meet challenges (Aziz and
Ayvaz, 2014; Williams and Williams, 2012), so that higher level of success and growth can be achieved (Rahman and Rahman, 2011).

Finally, the institutional perspective defines the informal sector as operating outside the government regulatory system (Nelson and De Bruijn, 2005). Entrepreneurs in the informal sector conceal business operations to avoid taxes from government authorities (Mattos and Ogura, 2009). The risk of detection by the tax officials is viewed to be low compared to the cost of time and income spent on formalizing firms in the informal sector (Sookram and Watson, 2008). As a consequence, entrepreneurs in the informal sector enjoy low public trust due to inferior goods or services, lack of access to resources (land, credits, etc.), penalties once caught, and the weak rule of law (Ulyssea, 2010). Additionally, they lack financial benefits, like the possibility to purchase materials on credit, to borrow from formal financial institutions, and to cash discounts (Ngiba et al., 2009).

In contrast, firms in the formal sector are recognised by the regulatory framework. They have access to public goods and services (e.g., electricity, roads, and water) through the protection of the state organs and property rights, and they have better access to financial entities (Straub, 2005). As a result, formal entrepreneurs can meet customer needs better in terms of quality and quantity (Ihrig and Moe, 2004) and are more efficient (Kathuria and Raj, 2013) in terms of business planning (Baird et al., 1994).

5.2.2 Entrepreneurial motivation

Motivation can be explained as an instinct/set of forces (motives) that substantially steer the behaviour of a person where the goal is either to survive, to succeed or to avoid failure (Carsrud and Brännback, 2011). Formerly, entrepreneurial motivation has been studied from two different views: (i) entrepreneurial motivation seeking for survival, or “necessity motivation”, invariably driven by “push-factors”, and (ii) entrepreneurial motivation aiming at succeeding and avoiding failure, or ‘opportunity motivation’ driven by “pull-factors” (Carsrud and Brännback 2011). Currently, the mix motivation akin to “push-pull” motivations combines the factors from both the necessity and opportunity motivations (Eijdenberg and Masurel, 2013; Gray et al., 2006).

Necessity motivations are defined as internal stimuli such as anger or fear which normally drives an entrepreneur to find the means of reducing tension (Carsrud and Brännback, 2011). The
necessity motivations include intention to support the family, to take care of children, to avoid redundancy and frustration from losing a job, and to earn a reasonable living standard (Al-Ghazali and Sadi, 2012; Poschke, 2013). The literature has noted that the majority of the entrepreneurs in LDCs are driven by necessity motivation. This is supported by Rosa et al. (2006) who found that most of the entrepreneurs in the informal sector in LDCs created firms because it was the only alternative for them to earn the daily incomes. The finding indicates that push factors influence entrepreneurs into starting small businesses in the informal sector (Holmén et al., 2011).

Scholars (e.g. Ismail et al., 2006; Kuzilwa 2005; Okafor and Amalu, 2010) argue that the phenomenon of necessity motivation is mostly caused by three factors; first, the disposing factors (lack of experience), second, the triggering factors (lack of ability to promote entrepreneurial activities that increase supply of new products, create new processes and identify markets for products), and finally, the constraining factors which include lack of finance, lack of networking, lack of innovative skills and business expansion, lack of proper locations for businesses, and stress due to hard work (Turan and Kara, 2007). As a result, firms in the informal sector generate hardly income for entrepreneurs’ survival (Chu et al., 2007). In relation to the shift from the informal sector to the formal sector, the question is whether entrepreneurs in the informal sector are able to shift to the formal sector and build competitive advantages (Hessels et al., 2008) because their aim is to meet the basic needs.

In contrast to necessity motivation, opportunity motivation is related to the exploitation of market opportunities (Druker 2002; Eckhardt and Shane, 2003). Entrepreneurs motivated with opportunity drivers identify opportunities through the discovery of market disequilibrium (Sarasvathy et al., 2010). In this regards the identification of entrepreneurial opportunity is associated with a process of perception of opportunity, discovery or creation of opportunity and evaluation of opportunity (Alsos and Kaikkonen, 2006; Ardichvili et al., 2003; Corbett, 2005). Subsequently, the identified opportunity is implemented in one of the two ways: (1) with the creation of a firm in the formal sector (Choi and Shepherd, 2004), and (2) with the shift of a firm from the informal sector to the formal sector (Demirgüç-Kunt et al., 2011; Williams et al., 2009). The latter option is observed in a study by McGowan et al., (2012) who discovered that the shift from the informal sector to the formal sector equip the entrepreneurs with the knowledge necessary for identifying more entrepreneurial opportunities.
Further, the study about entrepreneurial motivation is associated with the mix motivation akin to “push-pull” motivation (Hessels et al., 2008). The mix motivation emerged from the recent call of scholars who noted that entrepreneurial motivation is a more complex phenomenon than the dichotomy of necessity motivation and opportunity motivation (Williams and Gurtoo, 2011; Williams and Nadin, 2012; Williams and Williams, 2012). Similarly, most of the entrepreneurs in LDCs determine motivations revealing the presence of both necessity motivation and opportunity motivation (Adom and Williams, 2012; Eijdenberg et al., 2015; Eijdenberg, 2016). This means that the assessment of the factors motivating entrepreneurs to shift from the informal sector to the formal sector in LDCs should consider the mix motivation as opposed to the previous studies which dealt with either necessity motivation or opportunity motivation.

In contrast to a dichotomy of necessity and opportunity motivations, there are more types of a mix motivation beyond the dichotomy such as person-related cluster and business-related cluster (Benzing et al., 2009). The cluster of person-related enhances the shift from the informal sector to the formal sector, whereas the business-related cluster plays a key role to support the process of formalization (Frese et al., 2002; Rauch and Frese, 1999). The person-related cluster include the motivational factors such as independence, self-realization, recognition (social status), innovation (creative skills of doing enjoyable work), business expansion, societal commitment, whereas the cluster of business-related embraces motivational factors like financial success, access to finance, networking and freedom from government (Kumar, 2011; Robinson, 2014; Turan and Kara, 2007; Stefanovic et al., 2010; Stefanović et al., 2011). The factors of entrepreneurial motivation are briefly explained below based on how they influence the shift from the informal sector to the formal sector.

First, access to finance is regarded as one of the factors motivating entrepreneurs to shift from the informal sector to the formal sector, due to its ability to stimulate economic and social development (Angela, 2011). Scholars have noted that entrepreneurs in the informal sector access finance from the informal financial institutions only, which usually provide loans at higher interest rates compared to the formal financial institutions (Atanasova, 2007). That means setting of good policies for entrepreneurs in the informal sector to access the services of both the formal and non-financial institutions would broaden the scope of sources of finance among them and motivate them to formalize their businesses. As Abdmoulah and Jelili (2013) observe, an increase in the
number of formal financial institutions proportionately increases the business capital and enhances business growth.

Second, financial success is explained as one of the purposes of establishing a firm (Edelman et al., 2010), but the environment related to business operation determines whether or not the business succeeds (Utouh et al., 2012). Financial success is associated with knowledge of keeping records regarding the firm’s profitability and performance (Dennis and Fernald, 2001; Maiti and Mitra, 2011), but the majority of the entrepreneurs in the informal sector lack the accounting knowledge. Formalization of small businesses in the informal sector is expected to enhance accounting knowledge regarding the preparation of accounting reports, which enable the entrepreneurs to trace financial trends and take immediate actions once negative flow is observed (Thomas Iii and Evanson, 1987).

Third, freedom from government can be explained as the absence of government intervention in the direct use of scarce resources (i.e. consumption), control over resources through ownership (i.e. production), and interference with capital allocation (McMullen et al., 2008). Scholars argue that entrepreneurs in the informal sector are generally restricted and harassed by government entities, while their counterparties are provided with a document of business existence, and therefore, operate without government interruption (Shariff et al., 2010). Removing government intervention from the informal sector would obviously enable the entrepreneurs to access scarce resources, and markedly enjoy business freedom by exploiting numerous entrepreneurial opportunities that would otherwise be pursued by the entrepreneurs in the formal sector (McMullen et al., 2008).

Fourth, networking can be considered as a process of establishing, developing, maintaining and utilising business relationships for the purpose of creating opportunities for the benefit of all businesses in the network (Evans, 2015). The relationships can be of business to business, interpersonal or both (Preechanont and Tao, 2013). A study conducted by Ebbers (2013) on networking behaviours in creative industries found out that entrepreneurs in the formal sector scored highly on both individual and business networking due to numerous relationships with other entrepreneurs in the industry. Entrepreneurs in the formal sector are licensed to participate in national and international trade exhibitions where new knowledge is gained by winning competitive advantage (Nowicka-Skowron et al., 2011). On the contrary, entrepreneurs in the
informal sector operate within the local area (Property and Business Formalisation Programme, 2007) due to economic barriers from the government entities (Pinillos and Reyes, 2011) and lack of knowledge (Kristiansen, 2004). To sum up, formalization of firms in the informal sector provide entrepreneurs with benefit from networking through extended markets for products where potential new customers are captured, valuable information about competitors is acquired, needs of customers are worked out, and existing customers are maintained (O'Donnell, 2014).

Fifth, recognition (social status) is described as an effective factor for social esteem (Fereidouni et al., 2010). This is a demand for respect an entrepreneur expects to be accorded to in a society (Truyts, 2010). As Bernheim (1994) explains, the status of an entrepreneur depends on the prepositions expressed by his/her actions. The entrepreneur’s actions determine the number of friends, mates, neighbours, partners, and customers, and eventually, the customers rank the position of the entrepreneur in the business industry. Indeed, the locus has a tremendous impact on the income generated by the business (Truyts, 2010). Entrepreneurs in the informal sector are excluded from the society by the legal framework, and thus they have a limited number of customer groups interacting with their businesses. The formalisation of firms in the informal sector to the formal sector, will create more awareness of the products to customers at a broader jurisdiction and enhance social status for higher income generation (Fershtman and Weiss, 1993).

Sixth, self-realization implies the ability of an entrepreneur to initiate and sustain actions so as to achieve the goals set (Estay et al., 2013; Hogan and McWilliams, 1978). Previous studies have used self-realization, self-actualisation, and self-fulfilment interchangeably (Maclagan, 2003) to show how entrepreneurs interact with the environment to meet the set goal. As Hogan and McWilliams (1978) observe, for an entrepreneur to meet his/her set goal, external environment (social structures) plays a fundamental role. We have seen from the literature that entrepreneurs in the informal sector are operating under an unfriendly environment of limited sources of finance and frustrations from government regulatory authorities (Russo, 2009); so, planning and supervision of actions become difficult. Through formalization, entrepreneurs in the informal sector become free from government restrictions (Pettit Jr and Vaught, 1984), and thus, a considerable commitment to commercial and managerial activities is achieved (Estay et al., 2013). This is why Dorer and Mahoney (2006) argue that self-realization motivate entrepreneurs to contribute to personal, organisation, and industry success.
Seventh, societal commitment is defined as a responsibility that an entrepreneur should take in order to balance the interest of employees, suppliers, local community, and the nation (Pintea, 2015). Bansal (2005) found that the concept of societal commitment has divided entrepreneurs into two perspectives; (i) the economy (personal goal commitment) and (ii) the ethics (business commitment to society). Generally, entrepreneurs in the developed economies have successfully implemented the concept of societal commitment by fulfilling both the economy and the ethical requirements, while, the majority of the entrepreneurs in the informal sector in LDCs hardly execute the motivation of business commitment to society (Rwabizambuga, 2007). As a result, labour conditions are disobeyed and care about environment and society is ignored (Pedersen, 2010). The formalization of small businesses enforces entrepreneurs to take care of environmental issues, good working conditions and ethics of care to society (Von Weltzien Hoivik and Melé, 2009). For example in Tanzania, two certificates from the Occupational Safety and Health Authority (OSHA) and the National Environment Management Council (NEMC) are normally issued as a commitment of the entrepreneurs from the formal sector to society. The certificates from OSHA and NEMC are used as a promotional tool to attract customers and enhance enterprise performance (Yahya and Norbani Che, 2013).

Further, the term business expansion which is also explained as market expansion (Bang and Joshi, 2012; Haydu and Hodges, 2004) can be defined as a strategy of increasing demand of a product by changing non-customers to become customers (Bang and Joshi, 2012). The strategy is mostly applied by firms in the developed economies by diversifying businesses to meet regional and international demands (Gabrielsson et al., 2012). Similarly, the strategy is often used by entrepreneurs in the formal sector in LDCs to expand locally and directly contact with customers (Marek, 2014). Formalisation promotes entrepreneurs in the formal sector to extensively operate in a broader jurisdiction (United Republic of Tanzania, 2008) and to enjoy the market opportunities in terms of size and depth, competitive advantage and lower risks of trade regulations (Duralia, 2014; Robinson and Lundstrom, 2003).

Furthermore, independence can be described as an entrepreneur’s desire to initiate actions, take responsibility on the actions for business development, and make strategic decisions based on personal judgment (Longenecker et al., 1988). Independence is determined by individual characters such as need to become own boss, to control business direction, and need for freedom.
(Edelman et al., 2010). Scholars have found that one of the highly motivating factors that discriminate the formal sector from the informal sector is independence (Wagener et al., 2010). Through independent motivation, entrepreneurial actions are formulated (Rogoff et al., 2004), innovative activities are promoted (Baumol, 2004), entrepreneurial opportunities are discovered, and the outcomes are controlled (Shane et al., 2003).

Finally, innovation can be defined as a creation, improvement or implementation of new ideas which result in new products, new services, new markets, new actions or processes that benefit an entrepreneur (Acharya and Taylor, 2012). Scholars have noted that innovation brings significant changes on products because the entrepreneur’s actions are seriously scrutinised based on the customers’ needs (Damanpour, 1991). This means that low level of education (Kristiansen, 2004), and lack of knowledge (Olomi and Sinyamule, 2009) may create a gap between the products traded by an entrepreneur and the customer expectation needs (Ngowi, 2009). Formalization equips knowledge through innovation about the new plan of actions that can make substantial changes to products (Robinson, 2014). Further, innovation is extended where new markets are created, and entrepreneurial activities are increased (Zawislak et al., 2008), new technologies are discovered (Robinson, 2014), and the businesses become sustainable (Alam and Dubey, 2014; Andries and Czarnitzki, 2014).

5.3 Methodology

5.3.1 Research design

The study adopted non-probability sampling; this was considered a convenient sampling because the sampling frame could not be established (unreliable data base), it was difficult to obtain individual cases (some of the entrepreneurs in the informal sector were not willing to be interviewed) and there was little variation in the population. Particularly, the study chose a mixed method where qualitative information was collected through the survey, coded and quantitatively interpreted. In this regard, the questionnaire for entrepreneurial motivation was prepared to cover ten motivating factors, each with three items; one of them was negatively worded. Although the survey approach is thought to be biased, the researcher minimised the risk by working with three items in one proposition, one of them negatively worded. During the fieldwork, entrepreneurs were asked to indicate their level of agreement on a 5-point Likert scale, and whose options include
strongly disagree, disagree, neither agree nor disagree, agree and strongly agree. Then, the coded data were entered and analysed using SPSS, followed by a reversal of negatively worded items. Finally, the analysis of entrepreneurial motivation proceeded as explained in the next section.

5.3.2 Fieldwork

The fieldwork was conducted between November, 2014, and February, 2015, in four urban regions of Arusha, Dar Es Salaam, Dodoma, and Tanga. The regions were chosen based on the reasons that Dar Es Salaam and Arusha are the largest business towns in Tanzania where substantial tailoring activities are taking place. Tanga and Dodoma were selected because of strategic locations and the researcher has a good networking with the respondents.

Prior to the actual fieldwork, potential stakeholders were contacted to gain more knowledge about informal small businesses and the motivational factors in Tanzania. For example, officers from the Ministry of Industry and Trade (MIT) (Department of SMEs), the Business Registrations and Licensing Agency (BRELA), and the Property and Business Formalisation Program (in Kiswahili MKURABITA) were interviewed. In these interviews, it was found that there is no relevant and reliable database kept for the formal and informal sectors in Tanzania. Hence, the study adopted a convenient sampling procedure. Similarly, we conducted the qualitative interviews with 23 experts; 6 from MIT, 10 from Small Industries Development Organisation (SIDO) and 7 from MKURABITA about push factors and pull factors in Tanzania. Further, we discussed a long list of factors from literature with both the experts from MIT and MKURABITA, in order to remain with a list of push factors and pull factors appropriate to the Tanzania environment. Finally, we agreed upon which factors to include in the questionnaire, based on the findings of a pilot study of ten entrepreneurs in the informal sector, randomly selected from the tailoring industry. The researchers, in collaboration with the National Kiswahili Council (in Swahili BAKITA), translated into Swahili the questionnaire which was developed in English, and the two versions were sent to a translator to check for inconsistency and/or possible translation errors. The corrected Swahili version was eventually sent to a sample of ten entrepreneurs in the tailoring industry for pre-testing of clarity, comprehension, consistency, and appropriateness of items (validity and reliability). This process led to only minor adjustments.

The actual fieldwork started in Dar Es Salaam in August, 2015, followed by Arusha, Dodoma and finally, Tanga. The researcher was accompanied by one research assistant in each field area. These
research assistants were initially trained to interview and tested with research skills during the pilot study. All four assistants were familiarised with all the research procedures. The selection of the respondents was based on the interval of one firm for every four firms. Entrepreneurs who were selected were those willing to participate in the interview, worked in the industry for not less than three years and had less than ten employees. A total of 170 informal entrepreneurs from the tailoring industry were interviewed based on the measurement instrument in Table 5.1, with their numbers indicated in brackets as follows: Arusha (50), Dar Es Salaam (60), Dodoma (30), and Tanga (30).
<table>
<thead>
<tr>
<th>Variable</th>
<th>Dimension (scale)</th>
<th>Origin of the item</th>
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<tbody>
<tr>
<td><strong>Demographic information</strong></td>
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<tr>
<td>Variable</td>
<td></td>
<td>Standard items</td>
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<tr>
<td>What is your gender (1. Male, 2. Female)</td>
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<tr>
<td>What is your age group (1. Below 20, 2. 21-30, 3. 31-40, 4. 41-50, 5. 51-60, 6. Over 60)</td>
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<td>Please indicate the highest level of education you have successfully attained (1. Never attended school, 2. Primary school, 3. Ordinary level secondary school, 4. Advanced level secondary school, 5. Certificate/Diploma, 6. Advanced diploma/Bachelor’s degree, 7. Master’s degree, 8. Other (specify))</td>
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<tr>
<td>Have you attended any vocational training (1. Yes, 2. No)</td>
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<tr>
<td>Please indicate the category that describes the period you have received training (1. This year, 2. 1 year ago, 3. 2 years ago, 4. 3 years ago, 5. 4 years ago, 6. 5 to 10 years ago, 7. Over the last 10 years)</td>
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<tr>
<td>Please indicate the type of training obtained (1. Tailoring, 2. Carpentry, 3. Food, 4. Civil/mechanical engineering, 5. Handicrafts, 6. Other (specify))</td>
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<td>Please indicate the duration of the training attended (1. Less than 1 year, 2. Between 1 and 2 years, 3. Between 2 and 3 years, 4. Between 3 and 4 years, 5. More than 4 years)</td>
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<tr>
<td><strong>Business characteristics</strong></td>
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<td>Standard items</td>
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<tr>
<td>When was your business established (Year)</td>
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<tr>
<td>Please indicate the type of ownership of your firm (1. Sole Proprietorship, 2. Partnership, Corporation, 4. Other (specify))</td>
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<tr>
<td>Does the firm own a registered permanent address (1. Yes, 2. No)</td>
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<tr>
<td>If yes, indicate indicates below (1. Name of the firm, 2. Permanent address)</td>
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<tr>
<td>Is the business premise(s) (1. Owned Yes/No, 2. Hired Yes/No, Temporary Yes/No)</td>
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<tr>
<td>If hired who witnessed the agreement (1. Local authority leader, 2. Public Prosecutor, 3. Any other legal entity)</td>
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<tr>
<td>Is your business establishment authorised by (1. Local authority Yes/No, 2. Business Registration and Licensing Agency (BRELA) Yes/No)</td>
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<tr>
<td>Is your business establishment authorised by (1. Local authority Yes/No, 2. Business Registration and Licensing Agency (BRELA) Yes/No, 3. Both of 1 and 2 Yes/No, None of the above Yes/No)</td>
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<tr>
<td>Do you keep financial records as per accounting standards (1. Yes, 2. No)</td>
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<tr>
<td>Have you applied and receive a loan from financial institutions outside your local area (1. Yes, 2. No)</td>
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<tr>
<td><strong>Growth of business</strong></td>
<td></td>
<td>Adapted from Isaga, 2012</td>
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<tr>
<td>How many employees are there including owner-managers and relatives regularly working for the business as at 31st January, 2013?</td>
<td></td>
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<tr>
<td>1.) Full time</td>
<td></td>
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<td>2.) Part-time</td>
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<tr>
<td>3.) All</td>
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</table>

*The table continues on the next page*
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Societal commitment (pull factor)</td>
<td>Registration of my business will provide my business with better labour conditions than before (1. Strongly disagree, 2. Disagree, 3. Neither disagree nor agree, 4. Agree, 5. Strongly agree).</td>
<td>Adapted from literature and expert interviews</td>
</tr>
</tbody>
</table>

The table continues on the next page
| **Business expansion (pull factor)** |  |
| Registration of my business will allow my business to operate in the wider geographical area (1. Strongly disagree, 2. Disagree, 3. Neither disagree nor agree, 4. Agree, 5. Strongly agree). | Adapted from literature and expert interviews |
| Registration of my business will result in a decrease in the quantity of the products of my business to be sold in a year (1. Strongly disagree, 2. Disagree, 3. Neither disagree nor agree, 4. Agree, 5. Strongly agree). |  |

| **Independence (pull factor)** |  |
| Registration of my business will influence my desire to be own boss of my business (1. Strongly disagree, 2. Disagree, 3. Neither disagree nor agree, 4. Agree, 5. Strongly agree). | Adapted from literature and expert interviews |

| **Innovation (pull factor)** |  |
| Registration of my business will provide me with the ability to create new markets (1. Strongly disagree, 2. Disagree, 3. Neither disagree nor agree, 4. Agree, 5. Strongly agree). | Adapted from literature and expert interviews |
5.3.3 Sample characteristics

The survey study consisted of 170 entrepreneurs in the informal sector. The demographic characteristics of the respondents in terms of gender indicate that the majority (54.7 percent) of the respondents were males, followed closely by females (45.3 percent). On the basis of marital status, most of the entrepreneurs were married (57.6 percent), followed by single (31.8 percent), while the percentages of widows, widowers, the divorced, and the separated were almost negligible (all amounting to 10.5 percent). Based on the age group, the majority (47.6 percent) were between the ages of 31-40, followed closely by those with the 21-30 age group which accounts for 33.5 percent. In Tanzania, the common age group for informal economic activities is 15-35 (United Republic of Tanzania, 2014 p. 28); therefore, the highest response of 81.1 percent at the ages of 21-40 supports the Integrated Labour Force Survey conducted in Tanzania in 2014. On education qualifications, the majority (64.7 percent) of the respondents possessed primary education followed by those who completed ordinary secondary education (31.2 percent). This aligns with “2014 Integrated Labour Force Survey” which reported that entrepreneurs with low levels of education are mostly employed in the informal sector (United Republic of Tanzania, 2014). However, it was found in this study that most (61.8 percent) of the entrepreneurs supplemented their knowledge with vocational training.

With regard to business profiles, a total of 78.8 percent of the small businesses were created between 2000 and 2009 and the remaining 21.2 percent were created before 2000. That means all businesses were in existence for more than five years, indicating that the respondents from the sample acquired enough business experience prior to responding to the questionnaire. All businesses (100 percent) in the informal sector are working in the tailoring industry which confirms that our sample procedure was in order. 87.6 percent of small businesses were owned by sole proprietors with only 12.4 percent operating under a partnership. This implies that most of the questions were responded by entrepreneurs with authority, making the study findings more credible.

All the entrepreneurs interviewed admitted that their firms were not registered; therefore, no documents for business names and permanent addresses were shown. 20.2 percent of the business premises are owned by the tailors, 75.4 percent hired, and 4.4 percent have temporary permission from landlords and close relatives (e.g. son, daughter, nephew and the like). On the hired business
premises, the majority (95.4 percent) invited local authority leaders to witness the premises’ agreements, and 4.6 percent was witnessed by Public Prosecutors. This result could be explained by the fact that the services provided by the local authority leaders are cheaper than the Public Prosecutors. All businesses were sanctioned by local authorities. The majority of the respondents (95.0 percent) do not keep financial records, which justifies the reason why the number of entrepreneurs managed to receive a loan outside the local area was very low (2.4 percent).

When questioned about the plans to shift from the informal sector to the formal sector in the future, the majority 60.6 percent of the respondents were undecided, 11.8 percent were unlikely, 4.1 percent were very unlikely, while 22.9 percent were likely and 0.6 percent were very likely to shift. Similarly, on the question whether or not entrepreneurs wanted to shift at the moment of this study, the majority (64.1 percent) of the respondents were undecided, 10.6 percent disagreed, 2.4 percent strongly disagreed, while 21.1 percent agreed and 1.8 percent strongly agreed.

5.4 Operationalisation and results

The purpose of this study was to investigate factors motivating entrepreneurs to shift from the informal sector to the formal sector. First, Cronbach’s alpha values were calculated to be above 0.7 (Bryman and Bell, 2007). So, it is apparent that all items corresponding to the motivating factors created substantially reliable composite factors. Eventually, means and standard deviations for all entrepreneurial motivations were computed as shown in Table 5.2.

The overview of means and standards deviations indicate that all entrepreneurial motivations are hardly varying from 4.49 to 3.66 according to the informal entrepreneurs. The range from 4.49 to 3.66 coincided with the scales of strongly agree, and neither agree nor disagree with the measurement scale. Therefore, it is evident that entrepreneurs in the informal sector have consistently perceived and rated entrepreneurial factors on the higher end of the scales as shown in Table 5.2.
Likewise, the cumulative means of the entrepreneurial motivations from Table 5.2 show that “access to finance” is rated as the strongest factor motivating entrepreneurs in the informal sector to formalise their businesses. The rest of the factors which were rated according to the order of importance include “financial success”, “freedom from government”, “networking”, “recognition”, “self-realization”, “societal commitment”, “business expansion”, “independence” and finally, “innovation”. The results of the cumulative means from Table 5.2 indicate that there are differences in the perceptions among entrepreneurs in the informal sector towards entrepreneurial motivations; therefore, the T-test was performed to determine significance levels of the factors.

The T-test was performed to determine whether the mean scores of entrepreneurial motivations indicated significant differences. The results of the T-test in Table 5.3 show that “access to finance” is considered as significantly more important by the respondents than the other nine motivations. Further, the results in Table 5.3 show that the mean values between the second and third highest ranked (“financial success” and “freedom from government”) differ significantly from the rest but not between themselves. They score higher than “networking” and the remaining six motivations. The pull motivations “recognition”, “self-realization”, “societal commitment” and “business expansion” were ranked in the middle. Although they did not statistically differ from
each other, they significantly differ from the rest (i.e. “access to finance”, “financial success”, “freedom from government”, “networking”, “independence” and “innovation”). The most remarkable results are observed on the scores of “independence” and lowest ranked motivation “innovation”. The motivating factor “innovation” is significantly different from the preceding nine motivating factors and thus, is appreciably the least perceived factor of formalization.
Table 5.3: Entrepreneurial motivations in Tanzania: The differences (T-values)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial success</td>
<td>8.12**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Freedom from government</td>
<td>7.71**</td>
<td>0.12</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Networking</td>
<td>8.81**</td>
<td>2.24**</td>
<td>1.83*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recognition</td>
<td>10.01**</td>
<td>3.80**</td>
<td>3.38**</td>
<td>1.69*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Self-realization</td>
<td>10.42**</td>
<td>4.25**</td>
<td>3.98**</td>
<td>2.07**</td>
<td>.39</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Societal commitment</td>
<td>9.37**</td>
<td>3.98**</td>
<td>4.16**</td>
<td>2.02**</td>
<td>.37</td>
<td>.10</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business expansion</td>
<td>9.90**</td>
<td>4.18**</td>
<td>4.39**</td>
<td>2.20**</td>
<td>.52</td>
<td>.27</td>
<td>.30</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independence</td>
<td>9.63**</td>
<td>5.06**</td>
<td>4.92**</td>
<td>2.97**</td>
<td>1.95*</td>
<td>1.70*</td>
<td>1.82*</td>
<td>1.67*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>14.16**</td>
<td>11.12**</td>
<td>11.14**</td>
<td>8.80**</td>
<td>9.24**</td>
<td>8.73**</td>
<td>8.40**</td>
<td>8.75**</td>
<td>7.37**</td>
<td>1</td>
</tr>
</tbody>
</table>

*Significant at the .05 level (2-tailed).

**Significant at the .01 level (2-tailed).

Principal Component Analysis was performed to determine the smallest number of components that represent the best interrelationships of variables (in this case called motivational factors), to
identify the entrepreneurial motivations that have high loadings and to reduce the number of related motivational factors into manageable components (Pallant, 2010).

Thus, the analysis started with the assessment of the suitability of the data. Preliminary tests for sampling adequacy indicated that Keiser-Meyer-Olkin (KMO) value was 0.829 which is greater than the recommended value of 0.6 (Kaiser, 1974), and Bartlett’s value was statistically significant at 0.000, meaning that, the results of the two tests justified the implementation of factor analysis. A Principal Component Factor analysis was performed to explore the relationship between the motivational factors, and determine the possibility of retaining the factors of entrepreneurial motivations within the components.

A criterion of Scree test, as shown in Figure 5.1, and Kaiser’s criterion Eigenvalue of 1 or greater were performed to identify components of related responses and determine the motivational factors to be rotated. Table 5.4 shows two identified components that explain cumulative variance amounting to 62.506 percent. More specifically, component 1 explains 32.087 percent of the variance, and component 2 explains 30.419 percent.
Figure 5.1 Scree Plot

The factors were rotated using Varimax with Kaiser Normalisation to generate the rotated component matrix reported in Table 5.5. The rotation was converged in three iterations so that the original order of variances was rearranged to reflect the order of the component structure. Kline (2005) suggested that a factor loading above 0.6 is high, above 0.3 is moderately high and below 0.3 can be ignored. This means that a factor determining entrepreneurial motivation should correlate with a proposition that has factor loading above 0.3. The rotated component matrix

<table>
<thead>
<tr>
<th>Component</th>
<th>Total</th>
<th>Percentage of variance</th>
<th>Cumulative percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4.959</td>
<td>32.087</td>
<td>32.087</td>
</tr>
<tr>
<td>2</td>
<td>1.292</td>
<td>30.419</td>
<td>62.506</td>
</tr>
</tbody>
</table>

Table 5.4 Initial eigenvalues for components selected

121
contains information about the unique contribution of a motivational factor to one component, but in the results, five motivational factors labelled with grey colour are loading on both Component 1 and Component 2. Therefore, in order to meet the requirement of Principal Component Analysis the factors with high loadings across both Component 1 and Component 2 were deleted, and the component analysis was run again for the remaining 5 factors. The result in Table 5.6 shows that each of the remaining 5 factors is highly loading on to one component (grey coloured), and therefore allow easier interpretation of the components. Similarly, Table 5.6 indicates that financial success, access to finance and networking are clustered in Component 1, while Component 2 is loaded with innovation and independence.

<table>
<thead>
<tr>
<th>Motivational factors</th>
<th>Component 1</th>
<th>Component 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to finance</td>
<td>0.804</td>
<td>0.061</td>
</tr>
<tr>
<td>Networking</td>
<td>0.778</td>
<td>0.137</td>
</tr>
<tr>
<td>Financial success</td>
<td>0.749</td>
<td>0.221</td>
</tr>
<tr>
<td>Freedom from government</td>
<td>0.670</td>
<td>0.448</td>
</tr>
<tr>
<td>Self-realization</td>
<td>0.533</td>
<td>0.460</td>
</tr>
<tr>
<td>Innovation</td>
<td>-0.111</td>
<td>0.801</td>
</tr>
<tr>
<td>Independence</td>
<td>0.247</td>
<td>0.766</td>
</tr>
<tr>
<td>Business expansion</td>
<td>0.396</td>
<td>0.730</td>
</tr>
<tr>
<td>Societal commitment</td>
<td>0.436</td>
<td>0.708</td>
</tr>
<tr>
<td>Recognition</td>
<td>0.491</td>
<td>0.543</td>
</tr>
<tr>
<td>Eigen value</td>
<td>3.209</td>
<td>3.042</td>
</tr>
<tr>
<td>Percentage of variance explained (total 62.506)</td>
<td>32.087</td>
<td>30.419</td>
</tr>
<tr>
<td>Cronbach’s alpha</td>
<td>0.861</td>
<td>0.859</td>
</tr>
</tbody>
</table>
Table 5.6 Factor analysis (Rotated component analysis - Reduced set of motivational factors)

<table>
<thead>
<tr>
<th>Motivational factors</th>
<th>Component 1</th>
<th>Component 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial success</td>
<td>0.811</td>
<td>0.259</td>
</tr>
<tr>
<td>Access to finance</td>
<td>0.811</td>
<td>0.058</td>
</tr>
<tr>
<td>Networking</td>
<td>0.803</td>
<td>0.047</td>
</tr>
<tr>
<td>Innovation</td>
<td>-0.044</td>
<td>0.903</td>
</tr>
<tr>
<td>Independence</td>
<td>0.238</td>
<td>0.787</td>
</tr>
<tr>
<td>Eigen value</td>
<td>2.386</td>
<td>1.198</td>
</tr>
<tr>
<td>Percentage of variance explained (total 71.672)</td>
<td>47.719</td>
<td>23.952</td>
</tr>
<tr>
<td>Cronbach’s Alpha (overall 0.713)</td>
<td>0.759</td>
<td>0.652</td>
</tr>
</tbody>
</table>

As mentioned above Component 1 includes three factors: financial success, access to finance and networking. In Table 5.1, financial success was defined with the following items; “...with an opportunity to earn a higher income”; “...to create financial security to my family”; “...leave my business with little personal savings” (negatively worded). Access to finance was defined as; “...connect my business to financial institutions”; “...expose my business to access loans with lower interest rates from the financial institutions”; “...a barrier to raising my business capital” (negatively worded). And, networking was defined with the following items; “...participation of my business in trade exhibitions”; “...apply for tender from the central government, local government and government agencies”; “...attract few customers to the products of my business” (negatively worded). It is clear that the three propositions are predominantly financial related, both direct and indirect to the business issues. Therefore, Component 1 could be called “business-related”. On the other hand, Component 2 has two factors i.e. innovation and independence. Innovation was defined as; “...empower my personal actions to change my dreams into reality”; “...provide me with the ability to create new markets”; “...stimulate repetition of my old design of clothes” (negatively worded). The items for independence are; “...engaging my own actions for business development”; “...desire to be own boss of my business”; “...signifies abandonment of my strategies” (negatively worded). Obviously, the two propositions are related to personal inspiration, and therefore, component 2 is referred to as “person-related”.

To assess the explanatory power of the two clusters, reliability analysis on the determinants was conducted. The Cronbach’s alpha was 0.759 for cluster 1 and 0.652 for cluster 2; which is above
the Cronbach’s alpha of 0.5 recommended by most of the studies. Similarly, the motivational factors from each cluster are unidimensional, meaning that they are strongly associated with each other and represent a specific cluster. All variables have a high loading of 0.7 and above on the clusters. It can be said that Component 1 and Component 2 are valid measures for the variance in this study, and the motivational factors included in the rerun factor analysis represent a reliable measurement of the two clusters. Based on the above assessment, sum scores across motivational factors contained in each component were calculated. The sum score of business-related (2.663) is higher than the sum score of person-related (2.054). This means that the majority of the entrepreneurs in the informal sector are stronger business-related motivated. This is not surprising given the lack of permanent jobs and unstable income with firms in the informal sector in LDCs. Therefore, the result supports the idea that the majority of the entrepreneurs in the informal sector in LDCs are likely to shift to the formal sector where motivational factors associated with income generation and sustainability of their businesses are ensured.

5.5 Discussion

This chapter has investigated the factors motivating entrepreneurs in the informal sector to formalize their businesses. On the basis of this study, it was evidenced that push factors were highly ranked, and significantly motivated entrepreneurs in the informal sector to shift to the formal sector, while the perception of entrepreneurs about pull factors was extremely low and the pull factors were rarely considered as influencing factors. Further, two components, i.e. business-related and person-related emerged to be the main components of the factors that motivate entrepreneurs in the informal sector to shift to the formal sector.

Concerning the high score of the push factors, the results are in line with other research (amongst others Asah et al., 2015; Benzing and Chu, 2009; Al-Ghazali and Sadi, 2012; Poschke, 2013) that the majority of entrepreneurs in the informal sector create businesses out of necessity to meet the basic needs for their life. This means that entrepreneurs in the informal sector invest in tailoring businesses with small capital and low technology, and attract small numbers of customers, which in turn provide them with little income for basic needs. So, the shifting to the formal sector is regarded as a means of improving the living standards of entrepreneurs in the informal sector by having access to numerous financial institutions, extended networking, enough funds to meet
family expenses and recognition with government institutions. Recognition by government authorities permits the entrepreneurs in formalized tailoring firms to participate in procurement of tenders, and to attend seminars and workshops, and thus improve their skills and technology. Registration, which is an outcome of shifting from the informal sector to the formal sector, permits the entrepreneurs to access loans at low interest rates and affordable loan guarantees that allow them to remain with enough profits.

Similarly, the two components (i.e. business-related and personal-related motivations) emerged to be the main components of the factors that motivate entrepreneurs in their consideration of shifting from the informal sector to the formal sector. The two components are associated with the existence of entrepreneurs creating businesses on the bases of their choice (see Abdallah & Eijdenberg, 2019; Eijdenberg, 2016). The entrepreneurs creating businesses by choice do not treat push factors and pull factors a priori as separate groups, but show that push factors and pull factors can appear together in a form of business-related and personal-related motivations. Therefore, on the bases of the results of the two components, the shift from the informal sector to the formal sector is influenced by both the business-related and personal-related motivations.

Previous studies (Adom and Williams, 2012; Eijdenberg et al., 2015; Eijdenberg, 2016) grouped all items of entrepreneurial motivation into one factor of a mix motivation, and, as such privileged the entrepreneurs in the formal sector because the studies were not specific to the entrepreneurs in the informal sector. Similarly, studies (e.g. Benzing et al., 2009; Taormina and Kin-Mei Lao, 2007; Stefanovic et al., 2010) used factor analysis to establish that business-related environment, personal characteristics and psychological attributes motivate entrepreneurs. However, these studies focussed on the motivation for start-up businesses with findings of more than two clusters and the propositions clustered differently. The difference between our clusters and the clusters in the previous studies may be explained from the fact that the current motivational factors do indeed reflect the behaviour of the local entrepreneurs in this LDC (Eijdenberg, 2016; Rosa et al., 2006; Williams and Williams, 2012).

The factors that are included in Component 1 are business-related. The result in Component 1 is consistent with the studies (Kiggundu, 2002; Mutalemwa, 2009; Okpara and Kabongo, 2009) which indicate that entrepreneurship in LDCs is hindered by the business-related environment.
However, networking was not found as one of the factors under the cluster of business-related in the previous studies.

Similarly, the motivations related to Component 2 are person-related (i.e. independence and innovation). The result of Component 2 shows that entrepreneurs in the informal sector are also motivated by pull factors into shifting to the formal sector. We can say that, while business-related is explained with push factors and person-related with pull factors, the entrepreneurs from the informal sector are motivated by mix motivation into shifting to the formal sector. However, the push factors seem to be stronger than the pull factors in motivating entrepreneurs in the informal sector to shift to the formal sector.

5.6 Concluding remarks

In this chapter the aim was to answer the research question as to the factors that motivate entrepreneurs in the informal sector to formalize their business in LDCs and to provide the contextual explanation about the motivating factors.

Based on an in-depth study of literature about entrepreneurial motivations and expert interviews, the following entrepreneurial motivations were identified; access to finance, financial success, freedom from government, networking, recognition, self-realization, societal commitment, business expansion, independence and innovation. Indeed, the results suggest that entrepreneurs in the informal sector in LDCs are extensively motivated by the push factors (access to finance, financial success, freedom from government and networking) to formalize their businesses. Unexpectedly, the pull factors (recognition, self-realization, societal commitment, business expansion and independence) have considerably lower impact on formalization.

Further, the current study identified two main components: business-related and person-related. The results provided a distinction between the two components of factors which motivate entrepreneurs in the informal sector to shift to the formal sector and the influence of each component was extensively discussed. The findings show that entrepreneurs in the informal sector in the LDCs depend on both components to formalise their businesses. However, the business-related component has shown a higher score compared to the person-related component. The result suggests that entrepreneurs in the informal sector are strongly motivated by the push factors to formalise their businesses.
This is because the push factors are expected to empower the informal entrepreneurs to generate more income for better life. So, policy-making personnel should work on two things: (1) decreasing tax rates, and (2) decreasing barriers for formalization. Decreasing tax rates can be approached by registering both entrepreneurs in the formal and informal sectors. Setting a system that covers both informal and formal entrepreneurs would broaden the tax base and lower tax rates, and thus, encourage the entrepreneurs in the informal sector to pay tax and formalise their businesses. Lowering tax rates will increase entrepreneurs’ income which in turn will increase savings for reinvestment in the future.

With regard to implications particularly theoretical contribution, the current study is unique especially in the context in which data were collected and the way factors of motivation were chosen. The current study is a response to the recent calls on research related to entrepreneurship in the informal economy (see Webb et al., 2009, 2013), therefore the findings can be used by policy-making personnel in LDCs (Tanzania) to profile motivations for formalization in terms of significance.

As for the limitations and recommendations for the future study, although the empirical evidence about the factors determining formalization is gathered from a typical informal economy in an LDC, the findings of this study should be applied with caution. Future researchers in the area are advised to incorporate additional countries that host many informal small businesses, larger data sets and a greater number of motivations for better comparison of the results between countries and generalization of the findings.
Chapter 6

Owner-Managers’ Choices to Enter and Remain in the Informal Sector: Evidence from Tanzania

6.1 Introduction

Small business growth has become an important area in entrepreneurship as a research field. This is because, among other reasons, the growth of small businesses can contribute to poverty reduction and job creation, particularly in least developed countries (LDCs) (Sharafat et al. 2014; Varum and Rocha, 2013). Scholars have been studying the growth of small businesses from different perspectives. Some of the perspectives include the growth of small businesses across men and women in family businesses (McGregor and Tweed, 2002; Orser and Hogarth-Scott, 2002); others include the differences in growth between small businesses and large businesses (Wit and Kok, 2014). Currently, the growth of the formal sector and the informal sector seems to have attracted many scholars (Mattos and Ogura, 2009; Schoonjans et al., 2013; Sonobe et al., 2011). Most studies conducted in advanced economies have shown that businesses in the formal sector grows faster than the informal sector (La Porta and Shleifer, 2008; Schoonjans et al., 2013).

The reasons for this include the possession of highly skilled personnel, good management and strategies, people’s opportunity motivations, future orientation, and capital intensiveness (Morris et al., 1996). The firms in the informal sector, on the other hand, are characterised by family ownership, small-scale operations, reliance on indigenous resources, labour intensiveness, and low technology (Bangasser, 2000; Bigsten et al., 2000; Williams et al., 2009). Additionally, because the majority of the entrepreneurs in the informal sector are typically low educated, businesses

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10 The first version of this chapter was published with the Journal of Enterprising Culture, June 2019 as: Abdallah, G. K., & Eijdenberg, E. L. (2019). Entry and stay in the informal economy: Qualitative findings from a least developed country. Journal of Enterprising Culture, 27(2), 115-145. The chapter in this PhD thesis is based on the published paper with minor textual adjustments to fit the chapter within the PhD thesis.
become unproductive and produce low-quality products and, therefore, fail to grow (La Porta and Shleifer, 2008).

The relevance of the distinction between the formal and informal sectors is centred on the fact that most of the institutions, practices and processes legitimise the businesses in the formal sector and ignore the businesses in the informal sector (McGahan, 2012). But the informal sector’s size and scope account for noticeable portions of economic activity in LDCs and thus, significantly impacting job creation and income generation (Boateng et al., 2015). Therefore, understanding the distinction between the formal sector and the informal sector, where entry and remain would differ, is important for the governments to develop separate policies appropriate for the formal sector and for the informal sector. For example, the main challenges with the informal sector are lack of knowledge (innovation) and legitimacy. Hence innovative and supportive policies recognising the contributions of the informal sector and its workforce would support the growth of the informal sector in LDCs.

Previous studies (Adom and Williams, 2012; Bennett, 2010; Williams and Nadin, 2012) considered the informal sector as a process centre, where entrepreneurs accumulated resources before shifting to the formal sector. In this respect, the informal sector and the formal sector were regarded as interdependent levels of economic activities where entrepreneurs in the informal sector can easily shift to the formal sector (Nadin and Williams, 2012; Oviedo, 2009). However, recent studies (Gibbs et al., 2014; Williams and Nadin, 2010) indicate that entrepreneurs especially in LDCs, can possibly create informal small businesses (“enter” into the informal sector) and remain in the informal type of small businesses (“stay” in the informal sector), which reveals that the informal sector and the formal sector are independent segments of the labour market (Oviedo, 2009).

It is important to explore the reasons why entrepreneurs (hereafter referred to as the owner-managers) either venture into the formal sector directly or use the informal sector as a stepping stone. These reasons will also enable one to understand better the rationale of these firms to enter and to remain in the informal sector. Some of the reasons why owner-managers from LDCs enter and stay in the informal sector might originate from the entrepreneurial motivation. The majority of the entrepreneurs in the informal sector are determined by necessity motivation, and thus, the “entry” into the informal sector is free, meaning that entrepreneurs in the informal sector do not
incur costs and expenses of registration to create informal small businesses. And the “stay” in the informal sector provides them with the freedom to circumvent licensing and regulatory requirements (such as taxes) from government authorities (Oviedo, 2009).

In addition to entrepreneurial motivation, other reasons that justify why owner-managers in LDCs enter and remain in the informal sector are related with two other important aspects such as excessive regulations regarding taxes (Cling et al., 2012; Schneider and Hametner, 2013), and the low level of education possessed by entrepreneurs (Roy and Wheeler, 2006).

Scholars have extensively discussed the influence of entrepreneurial motivation on the creation of the firm (Carsrud and Brännback, 2011). The entrepreneurial motivation is significantly associated with economic development of a country. And in countries with low level of employment and excessive regulations regarding taxes and levies as is the case with LDCs (Schneider and Hametner, 2013; Torosyan and Filer, 2014) the entrepreneurial motivation might significantly differ between the entrepreneurs in the informal and formal sectors (Williams and Williams, 2012). Further, the entrepreneurial motivation is studied from two main angles, namely opportunity motivation (akin to pull factors) and necessity motivation (akin to push factors) (Achua and Lussier, 2014). While the opportunity motivation is related with formal entrepreneurs, based on their intention to growth (Yalcin and Kapu, 2008), other studies associate the entrepreneurs in the informal sector with necessity motivation because of their intention to meet basic needs (Al-Ghazali and Sadi, 2012). However, what currently is missing in the literature about entrepreneurial motivation is what entrepreneurs in the informal sector in LDCs consider when they enter and remain in the informal sector. This study shows that necessity motivation is significantly influencing entrepreneurs in LDCs to enter and remain in the informal sector.

Concerning entrepreneurs’ education level, entrepreneurs with higher education level, whom normally are associated with the formal sector are much more active in the exploitation of identified entrepreneurial opportunities (Baptista et al., 2014; Marvel, 2013; Ng and Feldman, 2010; Shane, 2000; Ucbasaran et al., 2008). Owner-managers with higher education level tend to be highly creative, sell their products to a wide geographical area and focus on business growth (Acharya and Taylor, 2012). Literature observes that the majority of the entrepreneurs in the informal sector in LDCs are low educated (Kuzilwa, 2005). Entrepreneurs with a low level of education mostly venture into economic activities that can easily be controlled by the owner-
manager and generate low incomes (Bates, 1985; De Silva and Sumarto, 2015; Moog, 2002; Ngowi, 2009). As a result, entrepreneurs in the informal sector depend on daily income for their survival. However, the literature is lacking the experiences of owner-managers in the informal sector in LDCs, concerning the education levels and entrepreneurial motivation.

The current chapter proceeds from the recognition that the concept of entry of entrepreneurs to the informal sector and remaining in the informal sector is widely covered with the literature on entrepreneurship in LDCs (see, for example, Odera, 2013; Schneider and Enste, 2000; Schneider et al., 2010). However, the available literature lacks the opinion of experienced experts and owner-managers in the informal sector as to why and how owner-managers from LDCs are motivated into entering and remaining in the informal sector. The possible reasons for the gap in the literature might stem from the fact that the lifestyle and the motivation of owner-managers in the LDCs are much more sophisticated. This means that, entrepreneurs in LDCs are driven by more than one type of the motivations (Rosa et al., 2006; Williams and Nadin, 2012) and some important information related to business affairs of entrepreneurs is lacking when the quantitative study is conducted (Rosa et al., 2006). Thus, personal experiences from experts and owner-managers might be the best approach to explore why owner-managers in LDCs preferably enter and stay in the informal sector. Therefore, the current study aims to answer the following research question:

What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania?

This study contributes to the literature in a number of ways. First, it present a case study aiming to enrich the existing literature (Williams, 2007; Williams and Nadin, 2010; Hudson, Williams et al., 2012) with personal experiences from experts and owner-managers in the informal sector. The experts and owner-managers in this study have explained in detail how and why entrepreneurial motivation, excessive regulations regarding taxes, and education levels are factors that strongly influence the entry and stay of entrepreneurs in the informal sector. For example, some owner-managers interviewed claim that by evading excessive taxes their businesses provide them with reliable income for themselves and their extended families.

Secondly, while the previous researchers (see Baum and Locke, 2004; Hessels et al., 2008) used a quantitative approach that simply provides a snapshot of motivations from the informal sector, the current study used the in-depth narratives of owner-managers from the informal sector in Tanzania,
an LDC in question. The qualitative approach reveals the fluidity of the entrepreneurs’ motivations over time. Additionally, this study responds to the call from scholars insisting on the need for conducting more research on the informal sector in LDCs (Adom and Williams, 2012; Carsrud and Brännback, 2011; Naudé, 2008; Webb et al., 2009, 2013).

This chapter is structured as follows: the next section focusses on the background literature, which is followed by the methodology. The findings of the study are presented in the section thereafter. The chapter ends with a concluding discussion.

6.2 Relevant literature

6.2.1 Entrepreneurial motivation

The entry and remain of owner-managers in the informal sector have largely to do with their motivation. According to the traditional view of entrepreneurial motivation, owner-managers treat necessity motivation as the only option for their lives (Williams and Round 2008). The owner-managers enter and remain in the informal sector because they are pushed by necessity (Al-Ghazali and Sadi, 2012; Yalcin and Kapu, 2008). In this regard, the majority of the economic activities conducted by owner-managers in the informal sector are carried out outside the legal framework approved by government entities (Schneider, 2000; Schneider and Enste, 2000; Schneider and Neck, 1993). Despite the fact that the informal sector is neglected by state policies (Debrah, 2007), owner-managers in the informal sector sell their products at a minimum price, a strategy that outweighs entrepreneurs in the formal sector to access the local market (Sethuraman 1976).

The entrepreneurial motivation which is widely covered in the entrepreneurship research field, is defined as instincts driving the behaviour of an individual towards the creation of a firm (Carsrud and Brännback, 2011; Dawson and Henley, 2012; Hechavarria and Reynolds, 2009; Kirkwood, 2009). Entrepreneurial motivation can be classified into different categories, for example: pull factors and push factors akin to opportunity drivers and necessity drivers respectively (Williams and Williams, 2012). Opportunity drivers (also referred to as extrinsic motives) are motivations which are related to the need for achievement and independence, an intention for growth, self-actualisation, increased status quo and reputation (Yalcin and Kapu, 2008). In contrast, necessity drivers (also referred to as intrinsic motives) are related to the need for meeting family
responsibilities, intention to support the family, taking care of the children and problems with finding the appropriate job (Yalcin and Kapu, 2008).

The majority of the owner-managers in LDCs are motivated by necessity (Adom and Williams, 2012). In line with this argument, Achua and Lussier (2014) studied three different groups of owner-managers and found out that a substantial number (64.0%) of the owner-managers in the informal sector are necessity-driven. Similarly, most of the owner-managers with necessity-driven motivation in LDCs are very poor, suffering from unemployment and difficult economic conditions (Poschke, 2013; Williams and Youssef, 2013). As a result, hardships of life push owner-managers into the informal type of self-employment (Chu et al., 2007). As Deli (2011) noted, the high level of unemployment compels owner-managers with the necessity motivation into informal self-employment, but this (unemployment) has no impact on the majority of the owner-managers with opportunity motivation. Therefore, it can be concluded that necessity motivation influences the majority of the owner-managers into entering and remaining in the informal sector because it is the only alternative for them to survive (Williams and Round, 2008).

6.2.2 The informal sector

Many owner-managers enter and remain in the informal sector because their income generating activities are carried as a means of survival and are outside the government regulatory framework (Williams and Windebank, 1993). The most common features of the informal sector include non-record keeping, non-contractual employment, direct subsistence production, and informal business ventures (Portes, 1983). Economically, the informal sector is a free entry business market, which provides opportunities mainly to illiterate, unskilled and marginalised owner-managers (Bodla and Afza, 1997).

Webb et al. (2009) distinguish between the formal and informal sectors regarding legal and legitimate dimensions. According to the authors, businesses in the formal sector are not only legally created, but they are also legitimate and have a wide societal acceptance. On the contrary, businesses in the informal sector are operating without legal support. However, their actions are desirable, proper and appropriate within the norms, values, and beliefs in the society (legitimate). This means that both the formal sector and the informal sector are legitimately honoured by society.
The boundary between the formal and informal sectors is created by the institutional frameworks in terms of laws, regulations, and policies which tend to support the formal sector. Despite the fact that the formal sector is predominantly recognised by institutions, recent evidence from the LDCs has shown that institutional-based frameworks have become ineffective, and, thus, encourage the entry and stay of owner-managers in the informal sector more than the owner-managers in the formal sector. For example, Gibbs et al. (2014) found that the entry and stay of owner-managers in the informal sector in LDCs is best explained by the institutional factors. The factors amongst others include taxation and other state regulations (Gërxhani, 2004). Indeed, the intensity and excessive regulations, excessive laws and policies, and high burden of taxes contribute substantially to the increase in number of small businesses created by the informal sector (Cling et al., 2012; Lugalla, 1997; Schneider, 2000; Schneider et al., 2010; Schneider and Enste, 2000; Schneider and Hametner, 2013; Schneider and Neck, 1993; Torosyan and Filer, 2014; Wells, 2007). The majority of the owner-managers in the informal sector feel that the policy-making bodies do not support their efforts to the economic development of the countries (Startienė and Trimonis, 2010), and thus, they operate outside the government regulations (Enste, 2010; Torgler and Schneider, 2006).

6.2.3 Education level

Among other important factors, what matters at the owner-managers’ decisions to enter and remain in the informal sector is their educational background. Education provides skills used by entrepreneurs in their production processes (Becker, 1993; Mahoney and Kor, 2015). Furthermore, education is the most important antecedent on the decision of creating a firm from either a formal sector or an informal sector ((Eggoh et al., 2015; Kedmenec et al., 2015). Scholars argue that education is an important tool in transforming ideas into products/services (Corbett, 2005; Ucbasaran et al., 2003; Ucbasaran et al., 2009). The argument is supported by the fact that owner-managers with a higher level of education can turn the ideas into client needs regarding products faster than owner-managers with a lower level of education (Grable, 2015). Owner-managers in the former category can enhance their ability to identify entrepreneurial opportunities because education increases entrepreneur’s skills and impact on business growth (Eggoh et al., 2015; Gielnik et al., 2014; Lobos and Szewczyk, 2014; De Jorge Moreno, 2008; Schoonjans et al., 2013; Wen-Long et al., 2014).
A number of studies conducted in LDCs, particularly in Africa which associated the levels of education and businesses growth have shown that entrepreneurs with a higher level of education have generated more income in their businesses than entrepreneurs with low levels of education. For example, the studies from Parker (1994) and Trulsson (2000) reveal that entrepreneurs who have completed secondary education are better in generating business income than entrepreneurs with knowledge of only primary education or entrepreneurs who never attended to school. Similarly, a study conducted by Woldie et al., (2008) in Nigeria finds that firms run by entrepreneurs with a diploma or university degree indicate higher growth than the firms run by entrepreneurs with a primary education level. Furthermore, a study by McPherson (1992) in Uganda, Tanzania and Botswana reveals that firms owned by entrepreneurs with vocational training education grow faster than firms owned by entrepreneurs with untrained vocational education. However, studies from the informal sector in LDCs have shown that the majority of the owner-managers possess a low level of education particularly during the creation of new businesses (Fourati and Affes, 2011), and therefore are forced to enter and stay in the informal sector (Roy and Wheeler, 2006). For example, a study conducted by three United Nations (UN) agencies, viz. United Nations Development Program (UNDP), the International Labour Organization (ILO), and the United Nations Industrial Development Organization (UNIDO), in Tanzania show that the majority of the owner-managers are lacking secondary education and degree education. In this regard, owner-managers are less likely to think of formalised businesses, instead they tend to create small businesses from the informal sector and sell products to the local market area (Hurst and Pugsley, 2011).

6.3 Methodology

6.3.1 Research design

This study used a qualitative research approach which entailed a focus group discussion, expert interviews, and interviews with owner-managers from the informal sector in Tanzania: a typical LDC. Qualitative interviews provide detailed explanations about motivations, perceptions, beliefs, and behaviours of owner-managers (Saunders et al., 2011). Amongst the most often used qualitative methods are the focus group discussion and interviews; this is because the two methods provide valuable information and involve low costs for researchers (Blumber et al., 2011).
6.3.2 Data sources

The focus group discussion, expert interviews, and interviews with owner-managers in the informal sector were conducted in Dar Es Salaam, the main commercial city in Tanzania with a working population of 3.2 million people (United Republic of Tanzania, 2014). The city is endowed with a considerable number of small businesses in the informal sector. Currently, the city accommodates 27.3 percent of all Tanzanian owner-managers in the informal sector engaged in economic activities (United Republic of Tanzania, 2014).

The sources of data for this study include interviewees (i.e. focus group participants and individual experts) from the Property and Business Formalisation Programme (PBFP), popularly known in Kiswahili as “Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania” (MKURABITA); the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA); the Business Registration and Licensing Agency (BRELA); and owner-managers from the informal sector. MKURABITA is a program established in 2004 by the government of Tanzania to facilitate the formalisation of property and business assets of owner-managers from the informal sector into legally held and formally operated entities of the formal sector. So far, the program has managed to conduct many studies in Tanzania such as the baseline studies of the informal properties (e.g., land and buildings owned by informal owner-managers) and businesses in Dar Es Salaam and Zanzibar in 2007.

Concerning TCCIA and BRELA, both are public institutions with the former overseeing the conduct of small business activities through training and harmonising the business environment, while the latter administers business regulations. Furthermore, 15 owner-managers from the informal sector were also involved in this study. Table 6.1 below provides a list of respondents that provided pertinent information for this study.
Table 6.1 Pertinent information of the respondents

<table>
<thead>
<tr>
<th>Number (#)</th>
<th>Name of Participant</th>
<th>Age</th>
<th>Organisation/type of the business</th>
<th>Gender (Male, M) /Female, F)</th>
<th>Title/Position</th>
<th>Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Own. 01</td>
<td>30</td>
<td>Selling juice</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>2</td>
<td>Own. 02</td>
<td>31</td>
<td>Second-hand clothes</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>3</td>
<td>Own. 03</td>
<td>28</td>
<td>Tailoring</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>4</td>
<td>Own. 04</td>
<td>27</td>
<td>Selling furniture</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>5</td>
<td>Own. 05</td>
<td>31</td>
<td>Second-hand clothes</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>6</td>
<td>Own. 06</td>
<td>30</td>
<td>Retail shop</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>7</td>
<td>Own. 07</td>
<td>30</td>
<td>Selling furniture</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>8</td>
<td>Own. 08</td>
<td>29</td>
<td>Tailoring</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>9</td>
<td>Own. 09</td>
<td>29</td>
<td>Cloth-making</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>10</td>
<td>Own. 10</td>
<td>29</td>
<td>Tailoring</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>11</td>
<td>Own. 11</td>
<td>33</td>
<td>Retail shop</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>12</td>
<td>Own. 12</td>
<td>30</td>
<td>Retail shop</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>13</td>
<td>Own. 13</td>
<td>30</td>
<td>Selling furniture</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>14</td>
<td>Own. 14</td>
<td>25</td>
<td>Retail shop</td>
<td>M</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>15</td>
<td>Own. 15</td>
<td>29</td>
<td>Soft drinks</td>
<td>F</td>
<td>Owner-manager</td>
<td>Owner-manager</td>
</tr>
<tr>
<td>16</td>
<td>Exp. 01</td>
<td>Above 50</td>
<td>TCCIA</td>
<td>M</td>
<td>Director</td>
<td>Expert</td>
</tr>
<tr>
<td>17</td>
<td>Exp. 02</td>
<td>Above 50</td>
<td>BRELA</td>
<td>M</td>
<td>Deputy Registrar</td>
<td>Expert</td>
</tr>
<tr>
<td>18</td>
<td>FGD. 01</td>
<td>Above 50</td>
<td>MKURABITA</td>
<td>M</td>
<td>Business Formalisation Officer</td>
<td>Focus group</td>
</tr>
<tr>
<td>19</td>
<td>FGD. 02</td>
<td>40</td>
<td>MKURABITA</td>
<td>M</td>
<td>Property Formalisation Officer</td>
<td>Focus group</td>
</tr>
<tr>
<td>20</td>
<td>FGD. 03.</td>
<td>Above 50</td>
<td>MKURABITA</td>
<td>M</td>
<td>Urban Property Formalisation Manager</td>
<td>Focus group</td>
</tr>
<tr>
<td>21</td>
<td>FGD. 04</td>
<td>Above 50</td>
<td>MKURABITA</td>
<td>M</td>
<td>Business Formalisation Officer</td>
<td>Focus group</td>
</tr>
<tr>
<td>22</td>
<td>FGD. 05</td>
<td>Above 50</td>
<td>MKURABITA</td>
<td>M</td>
<td>Senior Officer</td>
<td>Focus group</td>
</tr>
<tr>
<td>23</td>
<td>FGD. 06</td>
<td>Above 50</td>
<td>MKURABITA</td>
<td>M</td>
<td>Urban Property Formalisation Manager</td>
<td>Focus group</td>
</tr>
</tbody>
</table>

Note that in the second column of Table 6.1, the researcher of this paper used pseudonyms in order to maintain ethics of confidentiality which requires that the rights of the respondents’ identities need to be kept confidential unless permission is granted. The researcher did not obtain written consent from the respondents to waive their rights of confidentiality and thus, pseudonyms such
as Own. 01 to Own. 15, Exp. 01 to Exp. 02, and FGD. 01 to FGD. 06 were used for 15 owner-managers, 2 experts and 6 members of the focus group respectively.

6.3.3 Process of data collection

The data were collected between November, 2015, and March, 2016, in Dar Es Salaam from three sources in the following order. First, the corresponding author of this paper (hereafter referred to as: “the researcher”) collected data from the focus group. Six senior officers from MKURABITA were involved. The focus group discussion was conducted in a conference room at the MKURABITA head office, and participants were given enough time to air their views based on the themes provided by the researcher—who acted as the moderator of the focus group. The role of the researcher was to guide the discussion (Austin and Delaney, 1998), and to keep the discussion within the boundaries of the themes (Blumberg et al., 2008); by asking specific participants to clarify the meaning of a particular point of view before the researcher summarizes the discussion (Blumberg et al., 2008). The study benefited from the focus group because participants were more familiar with each other, and each member had enough time to participate and involve actively in the discussion (Morgan, 1996). The focus group discussion lasted for one hour and twelve minutes.

Second, data were collected from individual expert interviews, where two senior officers, one from TCCIA and the other from BRELA were involved. The interviews with both experts from TCCIA and BRELA were conducted at the premises of TCCIA and BRELA head offices. The participants from the focus group discussion and the expert interviews focused on the themes of identification and exploitation of entrepreneurial opportunities, business growth, competence development, entrepreneurial motivation, the impact of education levels on owner-managers from the informal sector and factors causing entrepreneurs to stay in the informal sector (see: Table 6.2).
Table 6.2 Interview guide for focus group discussion and expert interviews

<table>
<thead>
<tr>
<th>Topic</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification and exploitation of entrepreneurial opportunities</td>
<td>Owner-managers in formal small businesses identify more opportunities than owner-managers in the informal small business. Do you agree with the statement or not; if you agree, what is the reason for that; if not; what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>Owner-managers in formal small businesses exploit more opportunities than owner-managers in the informal small business. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Business growth</td>
<td>It is explained in the literature that the number of employees is an indication of growth in a small business. Can the number of employees be used as a measure of growth in Tanzania environment?</td>
</tr>
<tr>
<td></td>
<td>It is explained that informal small businesses grow faster than formal small business because of the great number of people employed. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Competences development</td>
<td>Do you think that passion, need for achievement, tenacity, internal locus of control, tolerance for ambiguity, goal setting, risk-taking propensity, self-efficacy, proactivity, and creativity can be used to measure the development of competences of owner-managers from formal and informal sectors in Tanzania?</td>
</tr>
<tr>
<td></td>
<td>Tolerance for ambiguity, goal setting, risk-taking propensity, self-efficacy and proactivity competences are more developed by formal owner-managers than by informal owner-managers. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Entrepreneurial motivation</td>
<td>Do you agree that access to finance, financial success, freedom from government, networking, recognition, self-realization, societal commitment, business expansion, independence, and innovation are factors motivating owner-managers from informal small businesses to shift to the formal sector? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>It is explained that access to finance is the best motivating factor compared with financial success, freedom from government, and networking. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>It is explained that certain motivations (recognition, self-realization, societal commitment, business expansion and independence) are moderately honoured in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>Also, it is found that innovation is a least motivating factor that influence entrepreneur from informal small business to shift to formal sector in developing countries like Tanzania. Do you agree with the statement or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Education levels</td>
<td>It is explained that skills and knowledge are the most important barriers for the exploitation of identified opportunities to most of the entrepreneurs in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>It is found that informal owner-managers possess a low level of education in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that?</td>
</tr>
<tr>
<td>Factors causing entrepreneurs to stay within the informal sector</td>
<td>In literature, it is explained that majority of owner-managers do not formalise their businesses because of excessive regulations, the burden of taxes, etc. What are the factors causing entrepreneurs to stay within the informal sector in Tanzania?</td>
</tr>
</tbody>
</table>

Third, data were collected from the interviews with 15 owner-managers in the informal sector. The majority of these owner-managers are conducting businesses, such as: selling furniture items, retail
shops, second-hand clothes, soft drinks, and tailoring. During the interviews, the owner-managers were required to meet the criteria of being in the small business operations for three years or more, and employing a small number of workers ranging from one to ten. A semi-structured interview guide was used, and owner-managers in the informal sector were inquired to provide explanations about the themes emerged from the interview guide (Blumberg et al., 2008).

The ordering and structuring of the themes in the interviews were slightly different from those used in the focus group and expert interview. The restructuring was done purposely to allow a better flow of the conversation (Blumberg et al., 2008). The themes used for the interview included the identification of entrepreneurial opportunities, the exploitation of identified entrepreneurial opportunities, business growth, the motivation of owner-managers from the informal sector, the impact of education level, and the factors causing entrepreneurs to stay within the informal sector (see: Table 6.3).
<table>
<thead>
<tr>
<th>Topic</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identification and exploitation of</td>
<td>It is explained that owner-managers in formal small businesses identify more opportunities than owner-managers in the informal small business. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>entrepreneurial opportunities</td>
<td>Owner-managers in formal small businesses exploit more opportunities than owner-managers in the informal small business. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Business growth</td>
<td>It is explained that informal small businesses grow faster than formal small business because of the number of staff employed. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Entrepreneurial motivation</td>
<td>Do you agree that access to finance, financial success, freedom from government, networking, recognition, self-realization, societal commitment, business expansion, independence, and innovation are factors motivating owner-managers from informal small businesses to shift to the formal sector? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>It was found that access to finance is the best motivating factor followed by financial success, freedom from government and networking. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>In addition, certain motivations (recognition, self-realization, societal commitment, business expansion and independence) are in a mid-lower group. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>Also, it was found that innovation is the factor that least influences entrepreneur from informal small business to shift to the formal sector particularly in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not: what is the reason for that?</td>
</tr>
<tr>
<td>Education levels</td>
<td>Similarly, that skills and knowledge are the most important barriers for the exploitation of identified opportunities to most of the entrepreneurs in developing countries like Tanzania. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that?</td>
</tr>
<tr>
<td></td>
<td>It is explained that the majority of the informal owner-managers in developing countries possess a low level of education. Do you agree with the results or not? If you agree, what is the reason for that? If not, what is the reason for that? What are the effects of possessing a low level of education in your career?</td>
</tr>
<tr>
<td>Factors causing entrepreneurs to stay</td>
<td>In literature it is explained that majority of owner-managers do not formalise their businesses because of excessive regulations; burden of taxes, etc. What are the factors which cause your business to remain within the informal sector?</td>
</tr>
<tr>
<td>within the informal sector</td>
<td></td>
</tr>
</tbody>
</table>
A voice recorder was used to record the conversations of both the focus group discussion and the interviews. The interview guides for the focus group and the interviews were prepared in English and Swahili respectively. Subsequently, the Swahili conversations were translated back into English before the data analysis. Finally, the recorded information from the focus group discussion, expert interviews and the owner-managers’ interviews were then transcribed verbatim, and imported into the NVivo software.

6.3.4 Data analysis

A qualitative data analysis focuses on the exploration of personal experiences, thoughts, meanings, beliefs, values, and feelings of people about themes/topics under investigation by the use of coding (Wong, 2008). The analyses of the currently collected data were done in three stages: keywords-in-context analysis, classic content analysis, and domain analysis (Leech and Onwuegbuzie, 2011).

First, the keywords-in-context analysis was used to code information that has related meanings. Coding in NVivo is done by highlighting a block of text and paste this to the identified node, which stores the code texts that capture similar meanings (Hilal and Alabri, 2013). The researcher highlighted the keywords which were repeatedly used (Leech and Onwuegbuzie, 2011) and pasted into the nodes.

Second, the content analysis assisted the researcher in getting a deeper understanding of what concepts were predominantly discussed by the participants (Leech and Onwuegbuzie, 2011) and, therefore, needed much attention. Accordingly, the themes were grouped into entrepreneurial motivation, small businesses in the informal sector and education level.

Finally, the domain analysis was conducted. The aim of the domain analysis is to have a better understanding of how the words have been utilised by the interviewees (Onwuegbuzie et al., 2012). Therefore, by using the domain analysis, the results of the most related words were presented in groups, to assist the researcher gaining more understanding of the data.

6.4 Findings

In this section, a selected number of excerpts from the focus group discussion, expert interviews, and interviews with 15 owner-managers in the informal sector are presented. The excerpts are
selected from the most illustrative interviewees and organised according to the following themes: the motivation for entry and remaining in the informal sector, informal sector, and education level. Also, the excerpts were taken from the owner-managers with the personal experience of more than three years; to provide the study with a deeper understanding of the real life of the participants’ behaviour in the small businesses. Similarly, the selected excerpts are organised as such that they both amplify and confirm those of the previous participant for a better understanding of the respective theme.

6.4.1 The motivation for entry and remaining in the informal sector

Literature about motivation has noted that the “need for survival” is among the most important factors that determine the entry and remaining of owner-managers in the informal sector in LDCs (Oviedo, 2009). In line with this argument, stories from the focus group discussion, expert interviews, and owner-managers’ interviews observe that necessity motivation is the main cause, and mostly associated with the economic underdevelopment of the country. Exp. 01, a senior officer from TCCIA, participated in several studies about small businesses in Tanzania, responds to the question about motivation:

“Another thing is I think lack of public employment. The government does not have enough opportunities may be to employ all graduates. It seems, more than 80% of the graduates and the majority of school leavers join maybe the self-employment career. So, they are pushing themselves... Employ themselves... Particularly the informal small businesses because they get daily pay” (Exp. 01, interview, 2015).

Two things are observed here: one is that there are a substantial number of new entrants in the job market; and, second, they are privately employed into the small business in the informal sector; that means, the infrastructure assists the new entrants to join the self-employment career. By insisting, “so, they are pushing themselves.... Employ themselves... Particularly into informal small businesses because they get daily pay”, Exp. 01 is claiming that self-employment influences the owner-managers to enter and remain in the informal sector.

In responding to the same question about entrepreneurial motivation, Own. 09, an owner-manager in the informal sector shared his experience. Own. 09 is a cloth-making entrepreneur engaged in
tailoring business for the past four years. He completed Standard Seven\textsuperscript{11} in 2008 and spent five years without a job before his brother trained him on tailoring in 2011. He started a tailoring enterprise in 2012 with a capital of TShs 200,000 (approximately $134) credited by his brother. Part of this respondent’s story says:

“Now, I can borrow maybe from my friends, sometimes from my close relative, yes, for capital expansion... I think my business expands.”

Then, Own. 09 continues further with:

“My business assists my family, maybe close family and sometimes extended family to meet basic needs like school fees and medical expenses [he insisted]” (Own. 09, owner-manager, 2015).

Also, Own. 11, the owner of a retail shop says:

“...Yes, with my business, sometimes I manage to keep savings to buy house furniture and clothes for my children during religious commemorations” (Own. 11, owner-manager, 2015).

Clearly, according to Own. 09 and Own. 11, the informal sector is an increasingly dependent source of employment and an important source of income for the majority of people in an LDC. Apart from Exp. 01, Own. 09 and Own. 11, some owner-managers, such as Own. 02, have managed to shift from necessity motivation to opportunity motivation. Own. 02, the owner-manager engaged in the second-hand clothes at Kinondoni area in Dar Es Salaam, explained the way the informal business influences opportunity motivation. In responding to the question about entrepreneurial motivation, Own. 02 discloses the following:

“Yes, I am still proud of my business, because street vending allows me maybe to meet with many customers, increase my customers.... Increase my sales, generate more income. You know, it takes me a week to sell all clothes within a bale... And sometimes I keep some savings to increase my stock of clothes” (Own. 02, owner-manager, 2015).

\textsuperscript{11} Standard Seven is the highest level of education in primary school in Tanzania.
Accordingly, by saying “Sometimes I keep some savings to increase my business capital”, Own. 02 provides additional information of the entrepreneurs in the informal sector to generate income for business capital expansion such as a persistent increase in the stock of clothes.

In short, the most explained reasons that motivate entrepreneurs to enter and remain in the informal small businesses are related to necessity motivation, such as: generating income for meeting basic needs like school fees, medical expenses, household furniture and clothes for children during the religious festivals.

6.4.2 Small businesses from the informal sector

As explained previously, one of the challenges limiting the majority of owner-managers in the informal sector to register their businesses in an LDC is the institutional framework (Webb et al. 2009). So, a group of members from the focus group discussion, the experts and owner-managers in the informal sector interviewed have explained how the institutions stimulate the owner-managers to enter and remain in the informal sector. The following participant is an expert from MKURABITA and participated in a lot of studies about the formalization of small businesses. Responding to a question about the informal sector, FGD. 05 comments:

“People stay informal maybe because the formal procedures are cumbersome and very difficult to fulfill. You need maybe to go to TRA\(^\text{12}\) to obtain TIN-number, then, may be assessed by the BRELA officers. You are asked a lot of questions sometimes maybe you provide the wrong answers”.

Then, FGD. 05 continues further:

“And, I think it is expensive regarding traveling and accommodation costs, and there are long procedures... Take longer periods, forcing owner-managers to close their businesses during the registration process [he insisted]” (FGD. 05, focus group, 2015).

Accordingly, as reported by FGD. 05, amongst the reasons for entrepreneurs to remain in the informal sector is a long procedure to formalise a business. FGD. 05’s argument is strongly

\(^{12}\) TRA stands for Tanzania Revenue Authority.
supported by his uttering: “… the formal procedures are cumbersome and very difficult to fulfill”. Long procedures create costs that are mostly shifted to owner-managers and thus, become an incentive to operate under the informal sector (Schneider et al., 2010). Apart from long procedures and costs, Exp. 02, an expert interviewee from BRELA, comments:

“In my view, people are not loyal to the government rules. Sometimes they feel to comply, but in fact, they do not comply. They perceive the rules maybe to be very difficult comply, even to try. The government is working hard to eliminate the challenges... Maybe people on their side should play their roles” (Exp. 02, expert, 2015).

Clearly, by saying “The government is working hard to eliminate the challenges….”, Exp. 02 admits the obstacles facing owner-managers from the informal sector to formalize businesses. Own. 06, an entrepreneur, shares the main reasons why entrepreneurs in the informal sector do not formalize small businesses. She says:

“Life is very hard, and tax rates are always changing. You know, my business cannot afford to pay all the taxes... So, I have located my business strategically; sometimes I close my shop when TRA officers visit my area” (Own. 06, owner-manager; 2015).

By saying that “Life is very hard and tax rates are always changing”, Own. 06 implies information that people operate in the informal sector because tax rates are not reflecting small businesses incomes, and therefore discourage owner-managers to formalize businesses. Similarly, Own. 01 (an entrepreneur) responded to the question about the proliferation of small businesses in the informal sector. Own. 01 is engaged in the selling of fruit juice and snacks at the Mwenge bus station. He started his business immediately after completing Standard Seven in 2010 with a capital of TShs 50,000. Own. 01 says:

“Because in my soft drink business, maybe I pay for premises rent on a daily basis, buy fruits, blender, and containers for keeping glasses and blocks of ice, then, business... Yes, life goes on.”

Then, Own. 01 continues:

“And I can borrow from microfinance... Sometimes I get half of the request, but I am very happy with my life” (Own. 01, owner-manager, 2015).
Thus, while FGD. 05, Exp. 02, and Own. 06 explain the problems of formalization such as long procedures and expenses, and high tax rates, Own. 01 shows how easy it is to operate a business under the informal sector. By saying “I pay for the premise rent on a daily basis, buy fruits… Life goes on”, Own. 01 confirms that it is easy and relish to operate. At the same time, by saying that “I can borrow from microfinance institutions…”, Own. 01 shows the possibility of getting a loan from microfinance institutions to expand capital.

Based on what was explained by FGD. 05, Exp. 02, Own. 06, and Own. 01, it can be confirmed that owner-managers in the informal sector weigh the costs and benefits of formalization before the decision to shift from the informal sector to the formal sector is made (Schneider, 2013). By uttering; “I think it is expensive in terms of travelling and accommodation costs, and there are long procedures”; “they perceive the rules may be to be very difficult comply” and “sometimes I close my shop when tax officers visit my area”, owner-managers demonstrate that formalization is a trade-off between economic benefit to be received and the cost/loss invested/incurred during formalization. From Own. 01’s story, life in the informal sector is more attractive and prosperous because people can easily borrow from microfinance institutions, and the informal small businesses are small regarding capital and manpower, and thus, do not draw much attention from tax officers. Similarly, by saying “life goes on”, firms from the informal sector have access to market opportunities.

6.4.3 Education level

The experts from both the focus group discussion and interviews have noted that the majority of the owner-managers particularly in LDCs lack the knowledge on how the opportunities are identified and exploited. The low levels of knowledge motivate the owner-managers in the informal sector to venture into businesses that are simple to operate and sell products on a daily basis. In line with this argument, FGD. 01, a senior officer from MKURABITA who participated in several studies about small businesses in Tanzania, elaborates how the education levels influence the business status:

“According to my experiences, the owner-managers in Tanzania possess primary education. You know, if you have low levels of education, maybe you do not expect recognition from the society, maybe you do not even think of recognition, what you need is
selling products sometimes at unidentified locations. So, I think with low levels of education they sometimes do businesses that are less innovative because maybe they intend to produce and sell many products at low prices” (FGD. 01, focus group, 2015).

Clearly, FGD. 01 is saying that “… what you need is selling products sometimes at unidentified locations”, he relates the low levels of education with the entry and stay in the informal sector. With regard to the relationship between low levels of education and the entry and stay in the informal sector, a member of the focus group discussion FGD. 06 tells:

“Imagine: you have a family, and you possess a low level of education. And you have to pay for basic requirements, hospital expenses and educate your children. Maybe you do not have the salary to pay the basic needs. You do not even understand about a formalised business” (FGD. 06, focus group, 2015).

FGD. 04, one of the experts from the focus group discussion, expands FGD. 06’s story:

“It is true... Easy for people with low level of education; they do petty trading businesses... Are selling products that are maybe easy to carry, and maybe little capital is needed... And maybe it is cheap. You do not need to register your business... Life goes on” (FGD. 04, focus group, 2015).

Own. 13 is a carpenter operating his business at Tangi Bovu in Dar Es Salaam. He has been in the furniture business for more than ten years now. He started alone with a capital of TSh 150,000. Later, his business expanded to employ three more people on full time basis and four others on a part-time basis. When asked about his views on education to be a motivation for creating a firm, Own. 13, says:

“You know, because of the low level of education and maybe tools, I manufacture simple local chairs (vigodas) used by women in the kitchen. People with a high level of education cannot do vigoda business; maybe they feel disregarded by the community. I do not have a specific place to sell my products. Yes, sometimes I sell vigodas at bus stations, sometimes at the railway station, bars, restaurants, and also in my local community. With this business, I make money, a lot of money” (Own. 13, owner-manager, 2015).

Based on Own. 13’s story it is clearly evidenced that the owner-managers with a low level of education opt for businesses mostly ignored by those with higher education levels. By saying “I
do not have a specific place to sell my product”, ”… a lot of money” Own. 13 confirms that the vigoda product is an informal business and it is economically viable.

In summary, the stories from FGD. 01, FGD. 06, FGD. 04, and Own. 13 demonstrate that the majority of the owner-managers in the informal sector operate small businesses because they possess low levels of education. Accordingly, the low levels of education are profoundly characterised by the local marketing strategies, such as carrying physical products around bus stations, railway stations, bars, restaurants, and designated areas of local communities. Also, the low levels of education are identified through venturing into simple business activities that require extremely limited capital. The need for limited capital is demonstrated by members of the focus group such as FGD. 04 who mentioned that owner-managers in the informal sector need limited capital, to produce simple products to carry and sell at lower prices.

6.5 Concluding remarks

The purpose of this chapter was to answer the research question: What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania?

A qualitative approach was adopted based on a focus group discussion, expert interviews, and interviews with owner-managers in the informal sector in order to answer this question. It was found that the reason for the entry and stay in the informal sector is based on necessity motivation, complimented by excessive regulations regarding taxes, and low education levels. The three factors are discussed below based on the findings.

With regard to entrepreneurial motivation, the majority of the owner-managers in the informal sector in an LDC enter and stay in the informal sector based on necessity motivation. Unlike the previous studies where owner-managers motivated by necessity factors were predominately a poor and marginalised group (Achua and Lussier, 2014; Poschke, 2013; Williams and Youssef, 2013), and depend on a primitive style of self-employment (Anca et al., 2009; Chu et al., 2007), the current study has extensively noted that in LDCs the small businesses in the informal sector can be a sustainable source of income. A typical example comes from Own. 09 who managed to generate substantial income for the close and extended family. Similarly, the results from this study are different from the previous assumption that necessity and opportunity motivations are mutually
exclusive factors (Achua and Lussier 2014; Adom and Williams, 2012; Yalcin and Kapu, 2008). The stories from the owner-managers, such as Own. 02, demonstrate that the businesses are capable of generating surplus income for capital expansion; an indication of the duality of necessity and opportunity motivations.

The significance of this study can be viewed in a number of ways. First, the study contributes to the research on entrepreneurial motivation. Most of the studies in entrepreneurial motivations are focussing on the existence of necessity and/or opportunity motivations (Adom and Williams, 2012; William and Youssef, 2013; Williams and Williams, 2012). However, the current study has shown that in this LDC the entry and stay of owner-managers in the informal sector is not exclusively an aspect of entrepreneurial motivation. Instead, the owner-managers are influenced by at least two other subjects beyond only necessity motivation: the excessive regulations regarding taxes and the education levels. This is particularly true for the members of the focus group discussion, such as FGD. 01 who demonstrates that owner-managers with low levels of education mostly venture into activities of cheap products for survival. This means that the definition of entrepreneurial motivation as conceptualised by the previous studies needs re-examining.

Similarly, this study contributes to the literature on the informal sector. Previous scholars have studied the informal sector from an institutional perspective; especially on the compliance to the rules and regulations (for example, Cling et al., 2012; Lugalla, 1997; Schneider and Neck, 1993; Schneider and Enste, 2000; Schneider et al., 2010). While the scholars considerably treated the informal sector as a source of tax avoidance, illiteracy, and weak economy (Fourati and Affes, 2011; Gibbs et al., 2014), the current study positions the informal sector on the agenda as the consideration in LDCs which needs deeper understanding (Carsrud and Brännback, 2011; Naudé, 2008; Webb et al., 2009, 2013). In this regard, the study centred around the personal experiences of six senior officers from MKURABITA in a focus group, two experts from TCCIA and BREL, and 15 owner-managers in the informal sector in Tanzania.

This chapter raises a number of practical implications. The formalization of small businesses intends to broadening sources of taxes and improving the wealth of owner-managers in LDCs. Therefore, governments and policy-making bodies should focus on four possible directions. First, harmonise, smoothen and network the registration procedures at regional and municipal levels so that owner-managers can easily register their businesses. Second, amend the tax rates to reflect the
income generated by owner-managers in the informal sector. Third, the policy-making bodies should encourage the owner-managers to attend basic courses of book-keeping for a better understanding of record keeping. Fourth: remove the registration fee or set the registration fee at a very minimum amount.

The limitations of the research presented in this chapter are that it was solely conducted in Tanzania, which implies that the results should be interpreted with caution in wider contexts. Other researchers are encouraged to study informal owner-managers beyond the other limitations of this study, such as the type and number of the interviewed people, the research design, the interviewees’ characteristics and the geographical area where the study was conducted. In addition, we are aware that the discussion about the results of entrepreneurial motivation, informal sector, and education level could not be exhaustive. Therefore, it should be considered as a point of departure for future research.
Chapter 7

Conclusions

7.1 Introduction

In Chapter 1, Section 1.1 of this PhD thesis, the main research question was mentioned: *to what extent are the entrepreneurs of small businesses in the formal sector different from the entrepreneurs of small businesses in the informal sector in a least developed country, such as Tanzania?*

To answer the research question, five empirical studies comprised of 180 entrepreneurs of small businesses in the formal sector and 397 entrepreneurs of small businesses in the informal sector were surveyed; 60 experts were interviewed in the pre-studies; 40 entrepreneurs in the informal sector were surveyed in pilot studies, and one focus group discussion with 6 experts was conducted. In total seven regions from Tanzania (a least developed country, an LDC) were surveyed during the four rounds of fieldwork. This concluding chapter provides a summary of the answers from all research questions in Chapters 2 to 6 followed by the answer to the main research question. Subsequently, the discussion continues with a section on theoretical contribution. Finally, the summary and conclusions chapter presents the concluding remarks, limitations of this PhD thesis, recommendations for future research as well as implications for policy-makers.

7.2 Answers to the research questions

The empirical study in Chapter 2 of this PhD thesis mentioned the following research question: *What is the extent of differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in a least developed country, such as Tanzania?*

The investigation on the identification and exploitation of entrepreneurial opportunities was determined through the introduction of new products, attracting new customers/customer groups and the designing of new production processes/ways of organizing at the local level, district/regional level, country level and world level. Based on the 15 expert interviews, the pilot study with 10 entrepreneurs from the informal sector, and responses from 50 formal entrepreneurs
and 61 informal entrepreneurs in the furniture industry the answers to the research question were: 1) Entrepreneurs in the formal sector identify more entrepreneurial opportunities than the entrepreneurs in the informal sector and, 2) Entrepreneurs in the formal sector exploit more entrepreneurial opportunities than the entrepreneurs in the informal sector.

After the results of the study from Chapter 2, the Chapter 3 research question was: *What is the extent of differences in terms of growth between firms in the formal and informal sectors in a least developed country, such as Tanzania?* The study measured the differences in the frequency of firm growth (in terms of the number of people employed from 2008 to 2012) between firms in the formal and informal sectors. The collected information was analysed using the Chi-Square Test and the Compounded Annual Growth Rate (CAGR). On the basis of the data that were collected from the same sample as with Chapter 2 of 15 experts, a pilot study with 10 entrepreneurs in the informal sector and the main study with 50 firms in the formal sector and 61 firms in the informal sector, the answer to the research question was that firms in the informal sector more often show growth than firms in the formal sector.

Departing from what we have learned in Chapter 2 (that entrepreneurs in the formal sector identify and exploit more entrepreneurial opportunities than the entrepreneurs in the informal sector) and from Chapter 3 (that firms in the informal sector more often show growth than firms in the formal sector), the research question of Chapter 4 (*What are the differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors in a least developed country, such as Tanzania?*) was answered on the basis of a pre-study with 20 experts, a pilot study with 10 entrepreneurs, 80 entrepreneurs in the formal sector and 90 entrepreneurs in the informal sector in four regions from Tanzania. Data were collected from the construction industry and analysed using the Independent T-Test. The findings in Chapter 4 show that entrepreneurs in the formal sector have developed entrepreneurial competences more than the entrepreneurs in the informal sector.

The empirical study in Chapter 5 answered its research question (*What are the factors that motivate entrepreneurs in the informal sector to formalize their business in a least developed country, such as Tanzania?*) by investigating 170 entrepreneurs in the informal sector in the tailoring industry in four regions in Tanzania, after a pre-study with 23 experts and a pilot study with 10 entrepreneurs in the informal sector. The data collected from the 170 informal entrepreneurs were analysed by
using two methods namely the independent T-Test and the Principal Component Analysis. The answer to the research question in Chapter 5 is that the factors motivating entrepreneurs in the informal sector to shift to the formal sector are push factors. The perception of entrepreneurs in the informal sector about the pull factors that motivate them to formalize their businesses was extremely low and the factors were rarely considered as motivations.

In the last empirical study, an exclusively qualitative study, the approach was on the basis of a focus group discussion with six experts, expert interviews with two experts, and interviews with 15 entrepreneurs in the informal sector. The research question from the qualitative study was: *What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania?* The data collected were analysed in three stages namely key-in-context analysis, content analysis, and domain analysis. On the basis of qualitative findings, the answer to the research question was that necessity factors are an important motivation for the entrepreneurs to enter and to remain with the informal sector in LDCs. A summary of the answers from research questions in chapters 2 to 6 are provided in Table 7.1 below.
Table 7.1 A summary of the answers to the research questions in chapters 2 to 6

<table>
<thead>
<tr>
<th>Research question</th>
<th>Chapter</th>
<th>Answer to the research question</th>
</tr>
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</table>
| What is the extent of differences between entrepreneurs in the formal and informal sectors in identifying and exploiting entrepreneurial opportunities in a least developed country, such as Tanzania? | 2       | 1) Entrepreneurs in the formal sector identify more entrepreneurial opportunities than the entrepreneurs in the informal sector in least developed countries  
2) Entrepreneurs in the formal sector exploit more entrepreneurial opportunities than the entrepreneurs in the informal sector in least developed countries |
| What is the extent of differences in terms of growth between firms in the formal and informal sectors in a least developed country, such as Tanzania? | 3       | Firms from the informal sector more often show growth than firms from the formal sector in least developed countries                                              |
| What are the differences in entrepreneurial competencies between entrepreneurs in the formal and informal sectors in a least developed country, such as Tanzania? | 4       | Entrepreneurs in the formal sector develop entrepreneurial competences more than the entrepreneurs in the informal sector in least developed countries          |
| What are the factors that motivate entrepreneurs in the informal sector to formalize their business in a least developed country, such as Tanzania? | 5       | Push factors motivate entrepreneurs into shifting from the informal sector to the formal sector in least developed countries                                   |
| What are the motivations that determine the choice of owner-managers to enter and remain in the informal sector in a least developed country, such as Tanzania? | 6       | Necessity motivations determine the entry and stay of owner-managers in the informal sector in least developed countries                                   |

Based on the results from the five empirical studies, it was possible to answer the following research question: to what extent are the entrepreneurs of small businesses in the formal sector different from the entrepreneurs of small businesses in the informal sector in a least developed country, such as Tanzania?

The results from this PhD thesis show that entrepreneurs of small businesses in the formal sector have developed entrepreneurial competencies more (Chapter 4), and identify and exploit entrepreneurial opportunities more (Chapter 2) than the entrepreneurs of small businesses in the informal sector. Similarly, entrepreneurs of small businesses in the informal sector run firms that
more often show growth than the entrepreneurs of small businesses in the formal sector (Chapter 3). The factors motivating entrepreneurs in the informal sector to shift to the formal sector are predominantly push factors, as opposed to pull factors that hardly played a role in this context (Chapter 5). However, the factors motivating entrepreneurs to enter and to stay in the informal sector are necessity driven for the majority of the entrepreneurs of small business in the informal sector (Chapter 6).

So the general answer to the research question is that the entrepreneurs of small businesses in the formal sector are different in terms of two things: more developed entrepreneurial competencies and the ability of identification and exploitation of more entrepreneurial opportunities than entrepreneurs of small businesses in the informal sector.

These two differences may be connected, although this connection was not a subject of research in this PhD thesis. Nevertheless, the entrepreneurs of small businesses in the informal sector are more successful than the entrepreneurs of small businesses in the formal sector, in the sense that their firms more often show firm growth than the firms of the entrepreneurs in the formal sector. It should be acknowledged however that this difference in growth between firms in the informal sector and firms in the formal sector is strongly determined by the measurement approach that was used. Further, in the transition of entrepreneurs in the informal sector to become entrepreneurs in the formal sector, it appeared that push factors were the most important factors. However, the stay (and entry) of entrepreneurs in the informal sector is best explained by necessity motivation, mainly the fear for higher taxes that are applicable in the formal sector and the observation that the level of education of the entrepreneurs in the informal sector is too low to become successful in the formal sector.

7.3 Theoretical contribution

Chapters 2 to 6 of this PhD thesis represent 5 empirical studies that were conducted between 2012 and 2016 which offer two main contributions to the literature. First, this PhD thesis has tested entrepreneurship theories using data from an LDC which shows that necessity motivations determine the entry and stay of entrepreneurs in the informal sector; and that push factors motivate entrepreneurs to shift from the informal sector to the formal sector. Second, it has provided two other important factors in addition to necessity motivation that determine the entry and stay of
entrepreneurs within the informal sector (viz. education level and informality), and offer reasonable explanations how the two factors are related with the necessity motivation in the LDCs’ environment.

7.3.1 Testing entrepreneurship theories using data from a least developed country - Tanzania

In this PhD thesis we have had main theories been informed and tested largely with data taken from western countries and that therefore, we need more studies using data from LDCs. It is very interesting to see that in LDCs necessity motivations determine stay (and also entry) of owner-managers in the informal sector (Chapter 6); and that push factors motivate entrepreneurs into shifting from the informal sector to the formal sector (Chapter 5). That means, necessity motivations also to be called push factors determine both the stay of entrepreneurs in the informal sector as well as the wish to leave the informal sector. This is a paradox, but it can be explained, namely from the rather hopeless situation in which many entrepreneurs and their families can be found: extreme poverty. The entry and stay of entrepreneurs in the informal sector is related with the low scores regarding gross national income per capita; social economic development; human development index including the enrolment in secondary school (United Nations, 2015).

As a result, entrepreneurs from LDCs are exposed to less or at least different opportunities from technological innovations and environment change. Consequently, informal entrepreneurs are exposed to local market opportunities through petty businesses that formal entrepreneurs cannot operate. That means, informal entrepreneurs operate in alleys where taxes and levies are easily evaded. In this regard, necessity motivations empower informal entrepreneurs to sell their products at low prices and generate daily income for living (entry and stay, see Section 6.4.1). Concerning the wish to shift from the informal sector to the formal sector, necessity motivation exposes informal entrepreneurs to the push factors such as access to finance, financial success, freedom from government and networking (see Section 5.5) which in turn empower the informal entrepreneurs to create more savings for business expansion. In this regards, necessity entrepreneurs weigh the cost of penalties from tax avoidance (informal sector) and the benefits of formalization (formal sector). On the event of low tax rates and friendly processes of registration, the shift from the informal sector to the formal sector is opted (see Section 6.4.2).
7.3.2 Necessity motivation associated with two other important factors

In the introduction section of Chapter 5 of this PhD thesis, the motivations influencing entrepreneurs in the informal sector particularly in LDCs were questioned. Studies have shown that the majority of the entrepreneurs in the informal sector in LDCs are determined by necessity motivation akin to push factors (Poschke, 2013; Al-Ghazali and Sadi, 2012), because the entrepreneurs have no other means of generating incomes to support their lives. On the other hand, the entrepreneurs in the formal sector are influenced by opportunity motivation akin to pull factors (Druker, 2002; Eckhardt and Shane, 2003); the formal entrepreneurs are found to be fast in exploiting identified market opportunities to meet the growth motive.

Studies on entrepreneurial motivation (e.g., Adom and Williams, 2012; Eijdenberg et al., 2015; Eijdenberg, 2016) have associated entrepreneurs in the informal sector in LDCs with the mix of motivations. That means entrepreneurs in the informal sector are determined by both necessity motivation and opportunity motivation. Entrepreneurs in the informal sector were noted to be influenced by the necessity motivation with the answer ‘the intention to earn money to survive’ and the opportunity motivation as a matter of choice (to enjoy flexibility and the potentials for making more money) respectively, from the question: “why did you decide to create your informal small business?” followed by an open question: “did you have any other reasons?” (Adom and William, 2012). However, a follow up question on the factors determining the entry and stay of entrepreneurs with the informal sector in LDCs is missing.

This PhD thesis aims to fill the gap by investigating the factors motivating entrepreneurs in LDCs to enter and remain in the informal sector. On the basis of this PhD thesis two other important factors, viz. excessive regulations regarding taxes imposed by the government authorities, and the low levels of education of entrepreneurs in the informal sector influence the entrepreneurs in LDCs to enter into and remain in the informal sector.

Furthermore, this PhD thesis contributes to the literature by providing reasonable explanations on the association between excessive regulations regarding taxes and low levels of education possessed by the entrepreneurs in the informal sector in LDCs with necessity motivation. In LDCs, excessive regulations are linked with lengthy procedures of formalization and high rates of taxes paid by the entrepreneurs after the formalization of small businesses. And, the low levels of education possessed by informal entrepreneurs in LDCs are related to the low technologies that
provide only daily income for survival. The excessive regulations and the low levels of education are illustrated by the excerpts in Section 6.4.2 and 6.4.3, and in the concluding remarks (Section 6.5) of this PhD thesis, where entrepreneurs in the informal sector indicated that formalization of small businesses involves many costs in terms of a number of days spent during the formalization processes and frequently changes of tax rates (excessive regulations); they also indicated that the technologies used to make the products are very low developed, and therefore the products are sold at low prices to get daily income for survival.

7.3.3 Concluding remarks about the role of the governments in LDCs

It is necessary for the governments in LDCs to conduct meetings with entrepreneurs’ associations to explain the significance of the research to society, and what is expected to be achieved, with the objective of changing the mental attitude of the people about research. Similarly, the government should support researchers from higher leaning institutions, universities, and private sectors in terms of funding and training to enhance research knowledge. Secondly, the LDCs’ governments should create strong educational infrastructure that accommodates entrepreneurship curriculum from the kindergarten level to the university level so that the entrepreneurship knowledge and skills are imposed and promoted to young generations.

7.4 Limitations of the study

As with many studies conducted in LDCs, this PhD thesis has also faced some limitations which imply that the results should be interpreted with caution.

First, data were collected from one out of 48 LDCs in the world. Although the samples were selected in seven regions from Tanzania, and the areas were strategically selected based on small business activities and the convenience of data collection, we admit that countries in LDCs have different levels of education and cultural context which might have an impact to the results.

Second, the results from this PhD thesis were predominantly shaped by the samples selected from five types of small business activities such as; furniture, construction, tailoring, second-hand clothes and soft drinks that were suggested by the experts from Tanzania. However, the composition of the types of business activities in the samples differs regarding the size of respondents, the geographical location of the businesses, the degree of formalisation, the education background of respondents, and the competencies of the respondents.
Furthermore, there is a limitation on the research methodologies used such as non-probability sampling; survey method; interviews with the owner-managers in the pilot studies and the experts; and only one focus group discussion was conducted. While the methods such as surveys, interviews and focus group discussion are common in LDCs, in this case, Tanzania (see for example the study by Isaga (2012) on entrepreneurship and the growth of SMEs in the furniture industry in Tanzania), other methods might have enriched the results.

Another limitation of this PhD thesis is related to a time factor that can be explained in two ways. One, samples were selected in four rounds between 2012 and 2016, and were based on small business activities that were very common to Tanzania. There might be the possibilities that those business activities that were extensively marketed between 2012 and 2016 are no longer attractive in these days due to the economic development and the changes in social preferences. Two, the rounds of data collection per sample were limited with time allocated particularly in the cases where a sample was selected from four regions (see sections of fieldwork in Chapter 4 and Chapter 5) at a maximum of three months. The time allocated for data collection might have affected this PhD thesis regarding sample size and selection method.

Finally, during the study, the researcher noted the lack of previous studies conducted on the topics contained in this PhD thesis. The topics of differences between formal and informal sector entrepreneurs in identifying and exploiting opportunities (Chapter 2); differences between formal and informal sector entrepreneurs in terms of growth of their firms (Chapter 3); differences between formal and informal sector entrepreneurs in terms of their competencies (Chapter 4); factors motivating entrepreneurs in the informal sector to formalize their business (Chapter 5); and owner-managers’ choices to enter and remain in the informal sector: evidence from Tanzania (Chapter 6). Although the researcher has extensively consulted the literature, most of the scholars cited in this PhD thesis were from the developed economies.

7.5 Recommendations for future research

Based on the limitations previously mentioned, the main recommendations for future research are now presented.
First, researchers are recommended to study the topics from this PhD thesis by accommodating more countries from LDCs to have a better comparison between countries and enhance generalisation of the results from large samples.

Second, it is recommended that future research should be conducted beyond the types of small business activities selected in this PhD thesis because different business activities might have different results. The author of this PhD thesis aimed to study five types of small business activities that were mostly traded between 2012 and 2016, because the owner-managers were available and willing to participate with the study, and it was easy to access them.

Third, it is recommended that a data set for future research to be designed to allow methods such as observation instead of the questionnaires, interviews and focus group discussion that were applied in this PhD thesis. The observation method improves the strength of the results because of the independence on the response from the respondents as it happens with questionnaires, interviews and focuses group discussion.

Finally, the recommendation is made on the time factor. As we have seen, this PhD thesis is a cross-sectional study meaning that the data were collected at a specific point in time, to meet the study deadline. Future researches are encouraged to set up longitudinal studies to provide more perfect and powerful results.

7.6 Implications for policymakers

Small businesses are vital economic activities for the country’s development, and in LDCs the majority of the small business activities are extensively operated by entrepreneurs in the informal sector. So, the results of this PhD thesis might be the basis for improving the policies dealing with the informal sector.

The findings from Chapters 2 to 5 have shown that informal entrepreneurs are facing two main problems: lack of basic book-keeping knowledge, and lack of entrepreneurship skills. So, the government should support training institutions with funds to be used for constructing programs such as tailor-made trainings, short courses, workshops and seminars, that enhance book-keeping and entrepreneurship skills. For example the book-keeping programs should focus on educating the entrepreneurs how to: record sales and expenditures in books of accounts, prepare daily and
monthly reports of income and expenditures, and prepare annual reports. The programs of the entrepreneurial skills should focus on training how to: finance small businesses in a broad perspectives of the available sources, think creatively and pursue different opportunities, and manage resources in a beneficial way. Policy-making personnel should ensure that the trainings are aimed to demonstrate resourceful use of available resources and change the perception of the informal entrepreneurs of necessity to opportunity motivations. The knowledge of these basics should be checked and if necessary further developed to meet business needs.

Concerning the shifting of entrepreneurs in the informal sector to the formal sector, it is crucial for the policy-making personnel to focus on the factors such as the tax rates charged to the entrepreneurs and the levels of business education possessed by the local entrepreneurs. Policy-making personnel should harmonise the business environment by setting the tax rates on the basis of the actual business income of the entrepreneurs.

Similarly, policy-making personnel should discuss with financial institutions to lower interest rates and provide loans at low collateral conditions. By resolving the above challenges, the majority of the entrepreneurs in the informal sector will be impressed with the formal business environment and therefore shifting to the formal sector.

This PhD thesis has also shown that while the majority of entrepreneurs in the informal sector in LDCs are determined with necessity motivation, the element of opportunity motivation was also observed. The policy-making personnel should collaborate with higher learning institutions and universities to provide training to entrepreneurs in the informal sector on areas such as book-keeping and entrepreneurial skills so that the entrepreneurs can smoothly shift to the formal sector for the sustainability of the economic development of LDCs.
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