

AN ANALYSIS OF THE DECISION TO FORMALLY REGISTER A NEW  
VENTURE IN SUB-SAHARAN AFRICA

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# AN ANALYSIS OF THE DECISION TO FORMALLY REGISTER A NEW VENTURE IN SUB-SAHARAN AFRICA

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## ABSTRACT

This dissertation considers the factors that influence the decision to formally register a new venture, by nascent entrepreneurs in Sub-Saharan Africa. Understanding these factors is important because registration is the inflection point where entrepreneurs move from the informal to the formal economy. Registered businesses are more likely to pay taxes, hire employees, access capital for growth, and participate in other activities that contribute to economic development. In Study 1, I use a grounded theory development approach and conduct a series of interviews with entrepreneurs and institutional actors in Ghana and Ivory Coast, to identify factors that influence the registration decision. In Study 2, I develop a model from Study 1, and use a survey design to evaluate the efficacy of the model. Both studies use three samples, two from the Nafana ethnic group, with one sample from Ghana and the other sample from the Ivory Coast, and one from the Bono ethnic group in Ghana.

## APPROVAL PAGE

The faculty listed below, appointed by the Dean of the Henry W. Bloch School of Management, have examined a dissertation titled “An Analysis of the Decision to Formally Register a New Venture in Sub-Saharan Africa.” presented by Chad David Coffman, candidate for the Doctor of Philosophy degree, and certify that in their opinion it is worthy of acceptance.

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## CHAPTER 1

### INTRODUCTION

Nascent entrepreneurs in developing nations, where institutions are likely to be ineffectual or limited, often find themselves with a choice between formally registering their new venture or operating in the informal economy. The traditional view in theoretical literature is that nascent entrepreneurs who choose to remain informal, are exercising rational choice (Allingham & Sandmo, 1972). Not registering their new venture presumably allows them to avoid conforming to government regulations (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2002; Friedman, Johnson, Kaufmann & Zoido-Lobaton, 2000), evade taxes (Frey & Torgler, 2007; Levy, 2010), and save time and money associated with the bureaucratic cost of the registration process (Bruhn, 2013; Loayza, Oviedo & Servén, 2005). This would suggest a relatively simple conflict between developing nation governments that wish to register new ventures—to regulate, tax and collect fees—and nascent entrepreneurs who wish to avoid these outcomes.

However, we have evidence that the decision to formally register a new venture is more complex than a conflict between nascent entrepreneurs and developing nation governments. There are benefits—in addition to eliminating the risk of government reprisal—to formal registration. Registered businesses may be seen as more legitimate, or reliable, to customers, suppliers, employees and lenders (Kaplan, Piedra & Siera, 2011). Studies from Bolivia (McKenzie & Sakho, 2010), Sri Lanka (de Mel, McKenzie & Woodruff, 2013), Indonesia (McCulloch, Schulze & Voss, 2010), Mexico (Bruhn, 2008) and Brazil (Fajnzlber, Maloney & Montes-Rojas, 2011) suggest that businesses that register generate more revenue, are more profitable, and increase employment. Extensive field work

by the Peruvian economist Hernando de Soto suggests that, at least in some situations, there may be more demand for business registration capability by nascent entrepreneurs, than developing nation institutions are able to efficiently supply (de Soto, 1989).

While the value of formally registering a business may be unclear for the individual entrepreneur, the cost to society of ventures operating informally is readily evident. Informal ventures generally do not pay fees or taxes and therefore do not contribute to the development of infrastructure and public services (Djankov et al., 2002; Kling, Kopp, Pommerehne & Schwarz, 1997). Employees of informal ventures are more likely to be exploited and less likely to access government sanctioned benefits (Kaplan, Piedra & Seira, 2011). Since informal ventures are, by definition, unregulated, they tend to pollute at higher rates and are more likely to compromise on employee and customer safety measures (Kling et al., 1997). While these societal costs fall within the purview of government, they also effect the environment in which nascent entrepreneurs operate. To disregard the nascent entrepreneur's consideration of societal costs, in their registration decision, is a discredit to these individuals and portrays an inaccurate description of the decision process.

Taken together, we see that the decision to formally register a business is quite complex. A nascent entrepreneur must weigh the fiscal costs associated with registration—following regulation and meeting tax schedules—against the benefits of increased legitimacy with stakeholders, that may improve financial performance. This decision is embedded in a societal context where legal status and contributing to the greater good, may override financial considerations. Even for nascent entrepreneurs who consider participation in the formal economy to be a matter of civic duty, such participation may be complicated when developing institutions are inefficient or even dysfunctional. Imagine the individual who

feels a moral or legal imperative to register a business but finds that doing so requires bribing a corrupt government official. The tension between developing nation government and nascent entrepreneur is thus a complicated push and pull, with government policy designed to enlist new ventures in an effort to generate tax revenue and enforce regulation, both of which represent costs to entrepreneurs. Simultaneously, nascent entrepreneurs are likely to value the legitimacy conferred by formal status, along with access to public services and capital, but may find that the process of registering their new venture is expensive, time-consuming, and may be complicated by the presence of corrupt government officials (Shleifer, & Vishny, 1993).

Understanding this decision is important because, for nascent entrepreneurs, this is an inflection point. Registering a new venture does not guarantee that a nascent entrepreneur will contribute to the formal economy, but it is the proverbial ‘ticket to the game’. For developing economies, engaging nascent entrepreneurs in the formal economy is key to capturing the growth they achieve, which we know to be a major driver of economic development (Klapper & Love, 2011; Loayza, 1997; McKenzie, 2017; Valliere & Peterson, 2009; Wennekers & Thurik, 1999). Furthermore, nascent entrepreneurs who do not choose to register their business expand the informal sector, which increases the cost of investigation, prosecution and punishment at the societal level (we see this with black market actors in developed economies). The benefits of business registration, combined with the costs of remaining informal, make the nascent entrepreneur’s decision a pivotal factor in efforts to promote economic development.

While this question has been considered in detail from a macroeconomic perspective, few studies have actually asked nascent entrepreneurs in developing contexts how they make

the decision to either register their business or remain informal. In Chapter 2, I identify the research question, define important concepts and review existing literature. Although my literature review is provided in Chapter 2, my first study—which appears in Chapter 3—uses a grounded theory design, so I completed my review of the literature after completing the first study to avoid anchoring biases that might result from previous research. For the benefit of the reader, I provide my review of the literature prior to presenting Study 1. Chapter 2 also provides an overview of the study’s methodology and research context. The data for this dissertation was collected in rural villages on both sides of the border between Ghana, a former British colony, and Ivory Coast, a former French colony. Respondents came from the Nafana ethnic group, on both sides of the border, along with a sample from the Bono ethnic group in Ghana. While generalizing beyond a study’s context has limitations, my intention is to develop theory that spans borders, ethnic groups, historical factors in sub-Saharan Africa.

Study 1 consisted of three phases. I began with phone interviews of six entrepreneurs, which I used to validate and expand on a semi-structured interview script I developed using existing literature. From these initial interviews, I also coded seventeen factors that potentially affect the decision to register a business in a developing context. In the second phase, I used this script to interview a selected sample of twenty-four entrepreneurs during a field study in Ghana and the Ivory Coast in May of 2019. These interviews allowed me to refine my initial coding into nine categories. I also found that my initial research question was over-simplified: much of the nuance in the decision-making process was not whether to register, but how to register. This led to interviews with a theoretical sample (respondents chosen based on missing information in the grounded theory development process (Charmaz, 2006)) of institutional actors—a local tax collector, a national tax collector, an

entrepreneurship educator and a business registration agent—who helped to explain business registration law and expectations from the government perspective. From these interviews, I developed six theoretical concepts that help explain how nascent entrepreneurs choose to remain unregistered, register locally, or register nationally. This process of coding, categorizing and conceptualizing follows the Charmaz (2006) method of grounded theory development.

Understanding the factors that nascent entrepreneurs considered was helpful, but different entrepreneurs prioritized different factors. In Chapter 4, I embed the six theoretical concepts from Study 1 in a model where I argue that the type of entrepreneur determines how each of the six factors effects his or her registration decision. This process included developing a typology of entrepreneurs, as I was unable to identify a satisfactory typology in extant literature. In Study 2, which was conducted in Ghana and Ivory Coast in January 2020, I collected survey data to evaluate the efficacy of my model. Chapter 5 then introduces a series of propositions and addresses limitations and future research considerations.

## CHAPTER 2

### RESEARCH QUESTION

Much of the literature examining formal business registration, can be found in the field of economics. However, the complexity of the decision to register a new venture by a nascent entrepreneur in a developing nation, suggests that individual actors are unlikely to have the necessary information or education to consistently make optimal economic decisions. Furthermore, issues of legality, morality and ethics introduce psychological factors that are difficult to capture with macroeconomic models (van Stel, Carree, & Thurik, 2005; Webb, Bruton, Tihanyi, & Ireland, 2013). The entrepreneurship literature broadly addresses nascent entrepreneurial behavior, but analysis of bottom-of-the-pyramid (BOP) actors in developing economies is still limited (Bruton, 2010; Walsh, 2015; Zoogah, Peng, & Woldu, 2015). Here, I draw from previous research in the fields of economics, psychology and entrepreneurship, to lay a foundation for my grounded theory development work which was completed in the field.

#### *2.1 Business Registration*

The question of how entrepreneurship leads to economic development is simply too broad to address without unpacking it into its component parts. This led me to begin with the research question “How does a nascent entrepreneur, in a developing context, make the decision to either formally register their business or join the informal economy?” This question is pivotal since those who choose to join the informal economy are much less likely to pay taxes and fees that fund public works or pursue growth activity such as accessing capital and hiring employees (Jackle & Li, 2003; Maldonado, 1995). Thus, the registration decision becomes an inflection point that significantly effects the way a nascent entrepreneur

will contribute to economic growth. Given the benefits of firm registration, it is important that governments provide a regulatory environment that encourages nascent entrepreneurs to join the formal economy (Djankov et al., 2002; Lagos, 1995).

*2.1.1 Cost.* One of the first steps towards creating this type of environment is developing a quick, uncomplicated and inexpensive process for the initial registration of the business (McKenzie & Sakho, 2010). This process is an obstacle for nascent entrepreneurs in developed and developing contexts alike, but we would expect it to be a bigger obstacle in developing contexts where corruption is more likely to complicate the transaction. Business registration can pose substantial costs in both time and money (Kling et al, 1997), although significant progress has been made in the past two decades to reduce the cost (see Mel et al, 2013) and complexity (Bruhn, 2013; Kaplan et al., 2011) of business registration, particularly in developing contexts (Johnson, Kaufmann & Zoido-Lobaton, 1998). It is important that this initial interaction is reasonable and fair, since this is often the first interaction between the nascent entrepreneur and the government, and it sets the tone for future interaction.

*2.1.2 Type.* Depending on country and industry, business regulation can be quite extensive and may include laws, codes, permits and licenses which may be augmented by a variety of instructions and guidelines. These regulatory requirements may impose a one-time obligation, as is the case with commercial registration, licenses and permits (although these may require annual renewal), or they may be ongoing obligations such as taxation, meeting labor standards, contributing to social security, or meeting health and safety requirements. Streamlining commercial registration procedures gives nascent entrepreneurs a positive experience which may motivate them to continue the formalization process and meet more onerous regulatory requirements as they grow. Although I do not exclude other regulations,

the focus of this dissertation is the decision to pursue commercial registration, since this is the decision that initiates the formalization process.

*2.1.3 Level.* Further complicating the business registration decisions is the need to adhere to regulation at multiple levels of governance. Cities, municipalities, counties, parishes, boroughs, districts, regions, states, countries, etc. may impose regulations that effect nascent entrepreneurs. In developed economies, different levels of government may share access to each other's data, or recognize each other's standards, but this level of sophistication is unlikely in developing economies, meaning that entrepreneurs may be forced to manage the relationship with each level of government individually.

## *2.2 The Formal and Informal Economies*

The formal economy is perhaps most easily understood as market activities that are captured by a nation's measurement of gross domestic product (GDP). This includes all registered businesses and corporations, public works, and the employees who work for them. Market activities outside of the formal economy have traditionally been disregarded as inconsequential (Kappel & Ishengoma, 2006; Tokman, 1979). The word informal was first used in reference to unregistered economic activity by British economist Keith Hart in a study of immigrants from the Frafra people of northern Ghana, who were living in poverty in Accra, the southern capital (Hart, 1973). He referred to unregistered employees as participating in the informal sector. Since that time, academic work has come to recognize the significant size and impact of informal market activity on economic outcomes (Chen, 2007; Chen, Vanek & Carr, 2004; Loayza, 1997; Maloney, 2004; Schneider & Enste, 2000). Because the term informal economy is so ambiguous and interchangeable, I provide an

overview of its common usage and substitutes, along with a synopsis of the three main schools of thought on informal activity.

*2.2.1 Informal Sector, Informal Economy, Shadow Economy.* Informal economic activity can take many forms, some legal and some illegal. It may involve employees, employers, stay-at-home parents and even neighbors. There is no consensus regarding how we name informal economic activity, but I provide here some guidelines for how previous literature has classified different activities and how I address the nomenclature issue in this study. In most cases, informal sector and informal economy are used interchangeably. However, Chen (2005, 2007) delineates between the two, arguing that the informal economy is more encompassing than the informal sector. She puts informal employers (business owners), unregistered own-account operators, unpaid family workers, and employees of informal businesses in the informal sector, but argues that an expanded definition of the informal economy includes informal wage workers for formal firms, such as day laborers, unregistered workers or temporary workers, along with industrial outworkers (also known as homeworkers). The shadow economy is perhaps even less descriptive but is often used to encompass all of the aforementioned categories, plus black-market activity such as the sale of illegal drugs. For the purposes of this study, I use the term *informal economy* and exclude illegal activity.

*2.2.2 Defining Informal Economy.* I follow (Chen 2007) in defining the informal economy as those market activities which would be included in measuring a country's GDP if said activity was made known to government officials. While this definition does not include illegal market activities, I will use the example of illegal business in later discussion to highlight the different forms of motivation that effect nascent entrepreneurs. I also exclude

do-it-yourself work among family and neighbors, along with petty trade. This leaves income-generating activities that would be legal if they were formally registered and reported.

*2.2.3 Within the Informal Economy.* While I use a broad definition of informal economy, this study is specifically focused on informal businesses — both those large enough to hire employees and own-account operators (sole-proprietors with no employees) — rather than informal employees or industrial outworkers. However, it is important to note that outcomes for employees of informal businesses are very much reliant on the decisions of these business owners, particularly because these employees are not protected by government regulation (Mazumbar, 1976; Perry et al., 2007). The importance of this relationship shaped the evolution of our understanding of the informal economy.

*2.2.4 Dualist, Structuralist and Legalist.* There are three dominant schools of thought on the informal sector: the dualist school, the structuralist school and the legalist school. The dualist school, which stemmed from Hart's work and was further developed by the International Labour Office in the 1970s, considers informal sector activity to be distinct from formal sector activity. The assumption is that informal activity is marginal activity of last resort for the poor, and that this type of activity will disappear as nations develop. This treatment of the informal sector is largely considered outdated and oversimplified.

The structuralist school, which emerged in the late 1970s and into the 1980s, recognizes that the informal sector is part of the broader economic structure, not just a minor, illegal offshoot that will disappear with economic development. Informal activity may even increase with capitalist development, as unregistered firms and workers find opportunities to create value for both formal and informal customers. Similarly, formal firms may leverage

informal activity to decrease input and labor costs. The structuralist school argues that formal and informal activity are inextricably linked and, in fact, interdependent.

The legalist school argues that the informal sector only exists as a result of poor policy and regulation. This perspective, which gained popular recognition through Hernando de Soto's work in the 1980s and 1990s, argues that entrepreneurs in the informal sector would prefer to operate formally, but rationally choose to remain informal due to the expense, time and effort associated with formal registration. These costs may stem from unreasonable government rules and regulations or may simply be a product of dysfunctional government. Unlike the dualist school, the legalist school argues that the informal sector is a large, meaningful sector of the economy. Further, the informal sector will not shrink with economic development but, rather, with improvements to government regulation and functioning.

*2.2.5 The Size of the Informal Economy.* The size of the informal economy is inherently difficult to measure, but there are three common methods of assessment: 1) extrapolating from direct procedures at the micro-level such as surveys (i.e., Feld & Larsen, 2009), 2) indirect procedures that proxy the informal economy over time using macroeconomic indicators (i.e., Feld and Schneider, 2010), and 3) statistical models that estimate the informal economy as an unobserved variable (i.e., Schneider, 2012). Some examples include measuring discrepancy between expenditure and income (Lippert & Walker, 1997), discrepancy between official and actual employment (Langfeldt, 1984) and currency demand (Schneider & Enste, 2000). Results range considerably from less than 5% of gross domestic product (GDP) to more than 60%, based on method of analysis and country. Sub-Saharan Africa and Latin America have the largest informal economies by

proportion of GDP, averaging approximately 40% across studies (Schneider, Buehn & Montenegro, 2010). Another method measures the value of unregistered land and buildings, which de Soto (2000) valued at more than nine trillion dollars worldwide.

### *2.3 Benefits to the Entrepreneur*

There has been considerable work on why, in developing contexts, entrepreneurs choose to remain informal, but geography, poor infrastructure, language barriers, and other obstacles have made it difficult to directly ask entrepreneurs to answer the question. I have discussed some of the common reasons to forego business registration, such as avoiding taxation, fees and the cost of adhering to regulatory requirements. In developing economies, interaction with corrupt government officials, alongside skepticism about the link between tax payments and provision of public goods, likely dissuades many entrepreneurs from formally registering their ventures. However, research shows that there are many benefits to registering a business such as increased legitimacy (Perry et al, 2007), legal status (Chen et al, 2004), the ability to use the business to collateralize loans (de Paula & Scheinkman, 2007; de Soto, 2001), and increased tax morale (Alm, McClelland & Schulze, 1992; Bénabou & Tirole, 2006.). Some authors have even argued that the financial cost is lower in aggregate because registered firms are less likely to pay bribes (McCulloch et al, 2010, Djankov, Lieberman, Mukherjee & Nenova, 2003). This section unpacks some of the common benefits for entrepreneurs.

*2.3.1 Legitimacy.* Gaining legitimacy is integral to any new venture's development, and one way entrepreneurs signal legitimacy in developed contexts is through business registration (Assenova, & Sorenson, 2017). Forming an entity that is recognized by the local or national government shows customers, suppliers, creditors and other stakeholders that the

new venture is willing to declare itself publicly, pay taxes, and conduct normal business functions within society's institutional boundaries (Hannan et al., 2007; Meyer & Rowan, 1977). Nascent entrepreneurs may not use these academic terms, but registration is, at a minimum, considered a necessary step in the start-up process.

In developing contexts, this link is less clear since entrepreneurs may not connect registration with legitimacy because they do not view the institutions in their task environment as legitimate (Friedman et al, 2000; Perry et al., 2007). In developed context, we assume that institutions will protect our information, enforce contracts, shield us from illegal behavior, and implement regulation intended to protect us. These assumptions may not hold true in developing contexts. One of the central questions of this study must then be whether entrepreneurs, and stakeholders such as customers, suppliers, and creditors, view business registration as conferring legitimacy.

*2.3.2 Legal Status.* One form of legitimacy, which is always conferred upon registration, is legal status with the local or national government. Legal status, in this sense, refers to being in compliance with business recording requirements. The activities that the business engages in may not necessarily be legal. In fact, businesses that are engaged in illegal activity often attempt to disguise themselves by legally registering their venture (as is the case with mafia money laundering or drug-cartels running import-export businesses). A business may be in compliance with local requirements without being in compliance with national requirements, and the opposite may also be true. This is less likely in developed contexts, since local registration often requires proof of national registration (for instance, in the United States of America, many state governments require a federal electronic identification number to register a limited liability company).

Legal status is important because it allows the entrepreneur to grow their business without fear of discovery (Chen et al, 2004; Morrison, 1994). This is true for very small ventures in developed contexts, especially in the construction industry where carpenters, roofers, carpet layers, and other tradespeople take evening or weekend “moonlight” jobs, or with “gig-economy” jobs like baby-sitting, dog-walking, playing in a local band, etc. These types of ventures may intentionally remain small and cash-oriented to avoid detection. But fear of detection is more relevant in developing contexts, where entrepreneurs may try to keep their full-time business hidden to avoid interaction with corrupt government officials (Treisman, 2000). It is not uncommon for successful entrepreneurs to be portfolio entrepreneurs, having many small businesses, rather than growing a single business and receiving unwanted attention. Unfortunately, this may prevent strong businesses from accessing capital, hiring employees, or pursuing other growth goals. There is evidence that, even in developing contexts, the benefits of legal status significantly outweigh both the corrupt and legitimate costs associated with being known to the government (Levin & Satarov, 2000), but the uncertainty associated with these costs may override the potential benefits or make such a calculation complex, especially for inexperienced entrepreneurs. Legal status also gives entrepreneurs the ability to seek government assistance in contract enforcement (Jansson & Chalmers, 2001).

Obedying the law is often framed as “the right thing to do”, but this assumption may not hold in developing contexts where government actors are likely to be corrupt. It is important to note that legal and ethical may not always be synonymous. Acquiescing to the law of a corrupt government may confer legitimacy on that government. Paying taxes may

fund a dictator's war machine. For this reason, I explicitly separate legal and ethical concerns.

*2.3.3 Ethical Issues.* Whether we call them beliefs or values or principles or morals, ethical issues can play a major role in business decisions, and this is especially true for start-up ventures where the founder makes all or most of the policy decisions for the business. For some entrepreneurs, an ethical concern will override all other considerations, and this translates directly into business outcomes. Two individuals may interpret identical ethical dilemmas in completely different ways, and some people see ethical dilemmas where others see no concern at all. Taken together, the potential for ethical factors to play a major role in business decision-making, in conjunction with being difficult to predict, poses a challenge to traditional economic models. This is the reason I chose to conduct interviews in the field, rather than relying on macroeconomic data, or even survey data.

It is particularly important to conduct in-depth interviews in developing contexts where corruption is unavoidable and may be considered a normal part of daily life. For instance, we have evidence that, when starting a business, Ghanaians view corruption very differently than Americans. When presented with scenarios that involved interaction with corrupt officials, Ghanaian respondents were much more likely to pursue a hypothetical business opportunity than American respondents. This was, in part, due to nuance in the Ghanaian response to different forms and communications of corrupt requests. American respondents tended to ignore variance in the form and communication of corrupt requests (Coffman & Anderson, 2018). Any correction or control that is used to address variance resulting from ethical issues would have to account for differences in business task environments (Dess & Beard, 1984).

We have evidence that evading taxes can lead to feelings of shame or guilt (Andreoni, Erard & Feinstein, 1998), which implies that tax evasion is perceived as “wrong” on some level. However, policies aimed at improving tax compliance through moral suasion have met with mixed results, with some studies showing that an appeal to the taxpayer’s sense of community and fairness has no effect (Blumenthal, Christian, Slemrod & Smith, 2001; Dwenger, Kleven, Rasul & Rincke, 2016; Fellner, Sausgruber & Traxler, 2013) while other studies show that such an appeal increases tax compliance (Bott, Cappelen, Sørensen & Tungodden, 2019; Hallsworth, List, Metcalf & Vlaev, 2014). We would expect context to explain some of this variance given that cultural and institutional factors could influence any question of morality. It is also worth noting that ethical issues can have direct pecuniary consequences since damage, or improvement to, an entrepreneur’s reputation would affect profitability.

*2.3.4 Collateral.* Registering a business generates a tax identification number, which is necessary for entrepreneurs who wish to open a commercial bank account. Opening a commercial account gives them access to business loans and creates a record of deposits in support of a loan application. Registration also creates a legal entity that can potentially be used as collateral for a loan, particularly for ventures with significant tangible assets. Unlocking capital has the potential to spur growth for ventures that have established themselves but need additional equipment or employees to expand (de Soto, 2001; Huq & Sultan, 1991; Ofori-Dankwa & Julian, 2013; Straub, 2005).

*2.3.5 Tax Morale.* The term tax morale is generally used to refer to any nonpecuniary factors that affect the decision to either pay or evade taxes. The economics literature refers to these factors as deviations from expected utility maximization (Luttmer & Singhal, 2014).

The Allingham and Sandmo (1972) model has long been the benchmark economic model for tax evasion, where the taxpayer weighs the benefits of lower tax payments against the costs associated with possibly being caught and punished. In this model, the tax rate, probability of detection and penalty for evasion determine taxpayer compliance, but taxpayers consistently pay more taxes than economic models would suggest (Graetz, & Wilde, 1985; Frey, & Feld, 2002; Frey, & Torgler, 2007). Tax administrators have recognized this trend and place a great deal of emphasis on promoting tax morale. Kenya, for instance, has a national Taxpayer's Week and recognizes Distinguished Taxpayers, in an effort to promote tax payment as an honorable action that supports society and community (Waweru, 2004). We would expect this strategy to be particularly useful in developing contexts where dysfunctional government institutions are less likely to detect tax evasion behavior. Beyond reducing tax evasion, increasing tax morale has been associated with lower rates of participation in the informal economy (Kirchler, 2007; Torgler and Schneider, 2009).

By registering their venture, paying taxes, and joining the formal economy, entrepreneurs potentially benefit in three ways. First, they gain the intrinsic satisfaction of contributing to society or their community (Dwenger et al., 2016), alongside the extrinsic satisfaction associated with being recognized as a contributing member to society and their community (Besley, Jensen & Persson, 2019; Bénabou & Tirole, 2006). Second, they receive access to, and awareness of, government programs designed to support entrepreneurs (Gibson & McKenzie, 2007; McKenzie & Sakho, 2010). And finally, there is the indirect benefit of contributing to total tax revenue, which, *ceteris paribus*, leads to better public works. This benefit may not be readily evident to the entrepreneur but, at the macro-level, improved tax morale leads to higher compliance levels and improved public works (Alm et

al., 1992; Alm, McClelland & Schulze, 1999; Frey, 2003; Frey & Feld, 2002; Pommerehne, & Weck-Hannemann, 1996; Torgler, 2002). Evidence from Sri Lanka has shown that formalized firms have more trust in the state (de Mel et al., 2013), which helps explain the link between registration and compliance since higher levels of trust in institutions also leads to greater tax compliance (Smith & Stalans, 1991)

#### *2.4 Benefits to Society*

While the benefits of registration for entrepreneurs are uncertain, the effect on society is overwhelmingly positive. Increasing the tax base and, by extension, funding for public works, is the largest and most obvious benefit. The preponderance of the literature indicates that, for those entrepreneurs who choose to remain in the informal economy, tax and social security contribution burdens are the main cause effecting the decision (Dell'Anno, 2003; Giles, 1999; Tedds & Giles; 2002; Johnson et al., 1998; Lippert and Walker, 1999; Mummert and Schneider, 2001; Schneider, 2005; Schneider, 2009; Tanzi, 1999), meaning that this benefit is potentially in conflict with the behavior of nascent entrepreneurs. Improved regulatory compliance and better employee protections are also significant societal benefits associated with formal registration. For the general public, moving businesses from the informal to the formal sector has many advantages and we would expect politicians and bureaucrats to serve this desire. Unfortunately, in developing contexts, maintaining a complex and demanding business registration process often benefits politicians and bureaucrats since it positions them to collect bribes in return for streamlining the process (Auriol & Walters, 2004; Djankov et al., 2002). One meta-analysis of 22 studies found that quality of state institutions accounted for 12%-17% of the variance in the size of the informal economy and specific labor market regulations accounted for 7%-9% (Schneider, 2009). The

societal benefits of business registration may run counter to the priorities of both nascent entrepreneurs and corrupt government officials. I provide an overview of the three major categories of societal benefits: tax compliance, regulatory compliance and labor protection.

*2.4.1 Tax Compliance.* We know that growth entrepreneurship is positively related to economic development (Klapper & Love, 2011; McKenzie, 2017; Wennekers & Thurik, 1999), but work to explain this connection is incomplete. One important consideration is the generation of tax revenue. Tax revenue funds a variety of important development indicators such as education, infrastructure and institutions, which is why we place such emphasis on registration and taxation. Businesses are called upon to pay an array of national and local taxes, from income and corporate taxes to sales and value-added taxes. This process may be mismanaged by governments leading to excessive rates or creating unreasonably complex and time-consuming processes. This is especially true in developing contexts that are characterized by corrupt government official behavior.

Taxation is a major reason for nascent entrepreneurs in developing contexts to remain informal (Levy 2010; Morrison 1994), but we also have ample evidence that entrepreneurs will voluntarily register their businesses (Bruhn, 2013; de Soto, 2001; Kaplan et al., 2011) which suggests that this decision is more complex than simple tax evasion. Feld and Frey (2007) argue that a psychological tax contract underlies tax compliance behavior, consisting of rights and obligation for taxpayers and tax collectors, citizens and the state. Willingness to pay taxes is strongly correlated with an individual's confidence that tax revenue is used in support of public works, often called reciprocity in the tax literature (Alm, Jackson, & McKee, 1993; Fehr, & Falk, 2002; Rabin, 1998), but the desire to conform with society may also play a role (Bardsley & Sausgruber, 2005; Henrich, 2004). Being treated fairly

(Kurzban, McCabe, Smith & Wilson, 2001; Hofmann, Hoelzl, & Kirchler, 2008) and as a partner rather than as a subordinate (Schneider, 2012) can also strengthen this psychological contract. Findings regarding the effect of deterrence measures—a robust literature, beyond the scope of this review—vary from negligible (i.e. Andreoni et al., 1998) to sizeable (i.e. Blackwell, 2010) depending on the intervention, institution and context.

An increase in the size of the informal sector is likely to result in reduced state revenues which, in turn, leads to fewer and lower quality public services. To account for the shortfall, rates for formal businesses are likely to increase which, when paired with the decrease in public services, further incentivizes remaining in the informal economy. On the other hand, an increase in the size of the formal sector is likely to increase states revenues, increasing the quantity and quality of public services. Accessing these improved public services makes joining the formal economy more attractive for nascent entrepreneurs. Furthermore, a stronger link between taxation and provision of public services strengthens trust in the state, which further improves tax compliance (Smith & Stalans, 1991). These reinforcing cycles, which can severely damage or significantly bolster economic development, help to illustrate the value in understanding and promoting business registration in developing contexts.

*2.4.2 Regulatory Compliance.* Regulation stems from a process where social goals are combined with the objectives of particular interest groups and codified as law by local or national governments (Djankov et al., 2002; Loayza, Oviedo & Serven, 2005). Like tax compliance, regulatory compliance is a combination of government ability to enforce regulation and individual willingness to comply with regulation. Well-crafted regulation benefits society by creating standards for things like food safety, construction, transportation

and labor, while imposing the minimum cost on businesses providing these services. In developing countries, regulatory compliance is often conspicuously absent. Regulations exist in law, but their enforcement is piecemeal, particularly as applied to informal firms which are small, often mobile and difficult to regulate (Gerxani, 2004).

Bureaucratic requirements for even very small formal firms can be quite high in developing contexts, where institutions are less efficient (Alonzo, 1991; de Soto, 1989; Loayza, 1999; Chickering & Salahdine, 1991). It is not surprising that many studies have shown a strong correlation between more regulation and a larger informal economy (e.g., Friedman et al., 2000; McCulloch et al., 2010). The coexistence of formal and informal firms competing in the same task environment skews marginal production costs and leads to inefficient allocation of resources (Hsieh and Klenow 2009; Levy, 2010). This further incentivizes remaining in the informal economy. Promoting business registration increases the number of firms bearing the tax and regulatory burden, while providing better information to markets improving resource allocation.

*2.4.3 Labor Protection.* Labor protection is a form of regulation but warrants special attention since informal labor represents such a large proportion of the informal economy. Employees of registered businesses are more likely to receive social security benefits, have a safe working environment and have more stable employment conditions (Feld & Frey, 2007; Feld & Larsen, 2009), and hourly wages for informal employees are significantly lower, on average, than those of formal employees (Kappel & Ishengoma, 2006). Portes, Castells, and Benton (1989, p. 30) argue that "the best-known economic effect of the informalization process is to reduce the costs of labor substantially". While lower direct wages play a role in this effect, they find that it is the indirect wages, such as social security contributions and

health benefits, that drive the effect. Studies in Latin America (Tokman, 1992) and Thailand (Nipon, 1991) have put the cost of formal labor 20% higher than the cost of informal labor. Policy directed at shrinking this disparity will be necessary, in conjunction with any effort to promote business registration.

## *2.5 Method*

The original intent of this study was to develop a grounded theory of the registration decision for entrepreneurs in Sub-Saharan Africa. I began with a cursory examination of existing literature to identify the major issues associated with this question, but I deliberately avoided an in-depth analysis of the literature prior to completing Study 1. I wanted to avoid introducing any biases, conscious or subconscious, that might affect my ability to effectively understand the perspective of my respondents. As is often the case with grounded theory development, the data collection process led to unexpected considerations, which I detail in Chapter 3. After completing Study 1, I undertook an in-depth review of the literature which, when combined with the results from Study 1, led to a more complex model, where different types of entrepreneurs have different needs and motivations that lead to different registration decisions. In Study 2, I develop and test a typology of entrepreneurs to include in my model, and evaluate the efficacy of the model using a survey design, which I present in Chapter 4. In Chapter 5, I introduce a series of propositions and address limitations and future research considerations.

*2.5.1 Research Context*. While informal firms exist in every economy, they are far more prevalent in developing countries. Hsieh and Olken (2014, p. 93) report that in India and Indonesia “the fraction of firms with less than ten workers is almost visually indistinguishable from 100%,” and in Nigeria, survey data puts the number at 99.6%,

whereas the modal manufacturing firm in the United States had forty-five workers (Hsieh and Klenow, 2014). Sub-Saharan Africa has the lowest share of the labor force in wage work of any region in the world (ILO, 2012). Ghana and Ivory Coast are both well below even the most conservative definition of “developing economy” – per capita GDP of \$12,000 – at \$6,452 and \$4,178 respectively. Ghana’s Corruption Perception Index score is 41, and Ivory Coast’s is 35 (out of a 100) putting them 78<sup>th</sup> and 105<sup>th</sup> respectively, among the 193 countries in the world. This puts them near the world average and somewhat less corrupt than their African neighbors. Ghana represents a former British colony, while the Ivory Coast represents a former French colony. Participants were recruited from within the Nafana ethnic group, which spans the Ghana-Ivory Coast border to control for factors such as language and culture. Additional participants were recruited from Ghana, but outside the Nafana ethnic group, to ensure that observations were not idiosyncratic to the Nafana people.

The Nafana ethnic group includes approximately 60,000 Fantara speakers. According to an elder member (N.K. Lauphie, personal interview, January 17, 2020), the Nafana people fled war in Kakala, a village in northwest Ivory Coast, between 400 and 500 years ago. They settled in Tampi, a village near Boundoukou in present-day Ivory Coast, but soon became involved in a land dispute in Jaamara, a village near Sampa in present-day Ghana. The people of Jaamara agreed to pay the Nafana people a pan full of gold, in return for helping them defeat their attackers. The joint Nafaana and Jaamara people prevailed in battle in the Yadu Forest, but the people of Jaamara did not have enough gold to make the promised payment. Instead, they gave the Nafaana people land, which is how the Nafaana lands came to span the present-day border between Ghana and Ivory Coast.

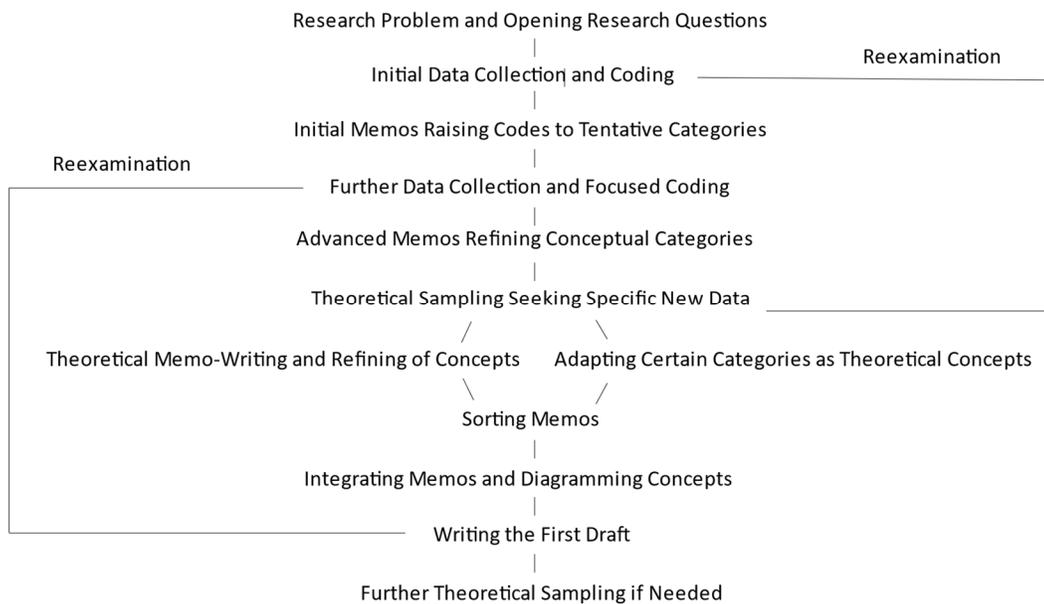
The history of the Bono people is quite different. They built a large empire based on the gold trade beginning around the 11<sup>th</sup> century. This empire flourished until the 18<sup>th</sup> century when the Ashante kingdom grew in power and wealth as a result of the slave trade along the coast. While the Bono empire lost power, it was never destroyed, and much of Ghana's culture and language reflects its Bono heritage. By including samples from these two diverse ethnic groups, I hope to account for cross-ethnic group differences.

Although Ghana did not become a British colony until 1874, and Ivory Coast a French colony until 1893, both colonizers were active in the region as early as the 15<sup>th</sup> century. One of the earliest inland British colonial courts was located in Sampa. Despite gaining their independence—Ghana in 1957 and Ivory Coast in 1960—colonial influence and institutional structure is still present today (i.e. the official language of Ghana is English and the official language of Ivory Coast is French). By including samples from different colonial backgrounds, I attempt to account for these differences in my grounded theory development approach.

*2.5.2 Grounded Theory Development.* In Study 1, I follow the grounded theory development approach recommended by Charmaz (2006) which appears in Figure 1. This approach begins with a research question or questions but avoids advance literature review. The initial round of data collection and coding leads to simple memos and the development of tentative categories. Qualitative analysis is ultimately just a process for sifting through data to generate categories that can be organized to develop new theoretical insights (Becker, 2008; Charmaz, 1983; Golden-Biddle & Locke, 2008; Van Maanen, 2011). Based on findings from initial data collection, further data is collected by asking different questions, with the intention of identifying missing information, rather than achieving larger sample

size (Yin, 2003). Memos are developed and conceptual categories are clearly defined. As theory emerges, it may be necessary to identify different samples of respondents who can provide perspective that the initial sample population could not provide, a process called theoretical sampling (Strauss & Corbin, 1990). Categories are then combined and refined to form theoretical concepts, which are sorted and diagrammed (Charmaz, 2006; Grodal, Anteby, & Holm, 2020).

Figure 1: Charmaz Grounded Theory Development Diagram



*Note.* Adapted from *Grounded Theory: A Practical Guide through Qualitative Analysis*. Charmaz, K. (2006)

I will present this process in great detail in Chapter 3. Qualitative analysis has always played an integral role in developing new theory (Eisenhardt, 1989), but there has been a recent call for increased rigor in qualitative research (Grodal et al, 2020; Pratt, Kaplan & Whittington, 2020). To demonstrate rigor, I provide an in-depth look at the strategies I used for coding and analyzing data, along with an explanation of how I move from data to theory

(Bansal & Corley, 2011). Upon completion of Study 1, I undertook an in-depth literature review which, when combined with Study 1 results, led me to consider a model that I develop and evaluate in Chapter 4.

*2.5.3 Evaluating the Efficacy of the Model.* In Study 2, I embed the six factors from Study 1 in a model linking venture type to registration decision and collect survey data to evaluate the efficacy of the model. I generate a profile for 150 entrepreneurs and their ventures (50 from each of my aforementioned populations), collect two items for each of my six factors, and registration status for each venture. I group the ventures using a typology that I developed and tested using interclass correlation coefficient analysis. I then evaluate the relationship between entrepreneur type, my six factors from Study 1, and registration status using descriptive statistics. The model is too complex, and sample size too small, to consistently estimate further relationships. The purpose of Study 2 was to evaluate the efficacy of the model, which led to the development of the propositions which I present in Chapter 5.

## CHAPTER 3

### STUDY ONE

Existing theory surrounding the question of business registration in developing contexts focuses on macroeconomic factors. While these factors may be relevant at the individual level of analysis, we would not expect nascent entrepreneurs in developing economies to consider their registration decision in terms of utility maximizing behavior. I begin by using a series of semi-structured interviews (see interview scripts for all three phases in Appendix A) to ask these entrepreneurs to describe how they weigh moral, societal and fiscal considerations in their own words.

#### *3.1 Phase One: Phone Interviews*

Data collection began with a selective sample of six entrepreneurs: two from the Nafana ethnic group in the Ivory Coast, two from the Nafana ethnic group in Ghana, and two from the Bono ethnic group in Ghana. In addition to their ethnic and national affiliations, these respondents were selected because they represent a wide array of business types and registration decisions (as shown in Table 1). Because the first round of interviews was exploratory, it was important to introduce a broad spectrum of viewpoints. For instance, Owner 2 is in a remote village where government officials rarely visit, Owner 3 is in the food consumption industry and is subject to separate health regulations that compel him to register his business, and Owner 5 would rather not be registered but she works as a contractor for large, multi-national companies that require registration with the Ghana Revenue Authority. These diverse perspectives added depth and breadth to the initial stages of grounded theory development.

Table 1. Phone Interview Participants

Respondent	Venture	Nationality	Ethnicity	Registration
Owner 1	Large cashew processing facility	Ivory Coast	Nafana	Local and National
Owner 2	Mechanized borehole for drinking water	Ivory Coast	Nafana	None
Owner 3	Soft drink supplier and retailer	Ghana	Nafana	Local and National
Owner 4	Small cashew processing facility	Ghana	Nafana	Local
Owner 5	Mobile money and phone credit sales	Ghana	Bono	National
Owner 6	Senior high and college registration help	Ghana	Bono	Local and National

The first round of semi-structured interviews was conducted over the phone using a script I developed based on a brief review of existing literature. The initial interviews served two purposes: 1) to gather response data about my research question and 2) to validate the interview script that would be used in the field. I felt that it was important, particularly as an American scholar conducting research in an African context, to keep the questions broad and allow the first round of respondents to shape the study moving forward. I used standard research translation techniques to ensure consistency across English and French versions of all interview and survey scripts throughout both studies (Altarriba, & Basnight-Brown, 2007).

### *3.2 Initial Findings*

It was not surprising, given the diversity of my selective sample, that responses varied significantly. After collecting basic demographic information, I began by asking respondents to reply to the open-ended question “What factors did you consider when you chose to register (or not register) your business?” Owner 1 said, “It’s become a normal thing” and Owner 3 felt that “It’s the right way to do business”. These sentiments were by no means unanimous. For instance, Owner 5 said “If not for Vodafone and MTN, I would never

register” and Owner 2 reported “I don’t think it’s necessary. No one has troubled me yet.”

Further discussion yielded the following factors:

*3.2.1 The Right Thing to Do.* This factor was one that the tax literature had anticipated (i.e. Andreoni et al., 1998), so it was not surprising to find that three of the six respondents would feel that business registration is a moral imperative. However, the other three respondents felt that business registration either did not apply to them, was a necessary inconvenience or was a complete waste of time and money. This component of the registration decision will require significant consideration.

*3.2.2 Being Educated.* This topic was raised by several respondents, although none of my questions directly broached the subject. In some cases, the subject of education was raised as a precedent to registration—Owner 6 stated very clearly “I registered with the GRA because I am an educated person”. In other cases, the subject was introduced in more oblique fashion – Owner 1 raised the subject of motivation when he said, “People who don’t have an education don’t understand the relationship between taxes and schools, roads, etc.” Owner 3 focused more on the need for government to educate business owners when she said that she “wasn’t sure of the tax rate. People aren’t educated about it.” Though the context varies, all six respondents raised the topic of education as a component of the registration decision. This was generally consistent with existing research. For instance, among entrepreneurs in rural Indonesia, education is associated with greater likelihood of registering a business (McCulloch et al., 2010).

*3.2.3 Citizenship.* The implication that an educated business owner would be more likely to register their business seemed to stem from the idea that a person would naturally wish to register their business if they understood that taxes led to public works. A good

citizen would feel obligated to contribute given an understanding of this relationship between taxes and improving the community or country. Of course, respondents who were more skeptical about the relationship between taxes and public works were more skeptical about the relationship between business registration and being a good citizen.

*3.2.4 Transparency.* Those who were advocating education of the public regarding the value of business registration, following regulations and paying taxes tied this advocacy to more government transparency. They felt that the government should be open about how they are operating and should be proactive about displaying their efforts to the public. They called for a relationship that was mutually beneficial, where entrepreneurs would want to obey the law because the government demonstrated to them the value in doing so.

*3.2.5 Tax Morale.* Even the respondents who advocated registering a business and paying fees and taxes, had low tax morale. There was no confidence, on either side of the border, that the monies collected by government officials would lead to public works. Respondents referred to the condition of the roads, schools and power grid as evidence that public works were not forthcoming. Owner 5 also made the point that, when tax revenue does get used for public works, she has no control over which projects the government chooses to pursue, which may correlate with low tax compliance (Alm et al., 1992; Pommerehne, & Weck-Hannemann, 1996).

*3.2.6 Corruption.* As expected, corruption was considered the most likely reason for the disconnect between tax revenue and public works. As Owner 2 said, “Taxes go into someone’s pocket so there’s no moral obligation to pay”. His mechanized borehole is the only source of quality drinking water in the village, so he gives free water to government officials when they are in town to stay in their good graces. Others pointed to the fact that the

amount of time it takes to get your business registered is affected by how much you pay. The official cost is public information, so any additional payments are clearly being retained by the government official who pushes through your paperwork (or delays it).

*3.2.7 Time Commitment.* Developing governments are notorious for being inefficient, so delays in the registration process were expected to be a major complaint. However, the entrepreneurs in this sample did not seem to feel that the amount of time they spent during the registration process was unreasonable. They did feel that the amount of time it took to receive a response from the government could be unreasonable, but this seemed to be more a product of the aforementioned corruption issue, than an issue of competence.

*3.2.8 No Local Option.* One of the major frustrations voiced by Ghanaian respondents was that there was no local option for registering their businesses with the national government (for Ivorian respondents, the regional capitals offer this service). An entrepreneur wishing to register with the Ghana Revenue Authority must either travel to the capital in Accra themselves—an expensive and time-consuming trip of approximately fourteen hours—or pay one of the quasi-official private agents to travel there on their behalf. Introducing a middleman creates additional opportunity for graft and elongates the process. Of course, the Ghana Revenue Authority does have local tax collection offices.

*3.2.9 Local Versus National.* Registering with the national government is only one of the requirements for a business venture. It must also be registered with the local district assembly. This process is much easier and quicker since the offices are located in each district (the equivalent of a county in the United States). It seems that some ventures are registered locally, but not nationally, and vice versa.

*3.2.10 Legal Versus Regulatory.* Registering the business with the local and national governments satisfies the legal requirements for many ventures, but for those who are involved in food and drug industries, registering their business exposes them to scrutiny by various national regulatory departments. Owner 3, who sells water sachets and soft drinks, found that enforcement of regulatory requirements was much more stringent than enforcement of registration and tax payment. Owner 4 is waiting to register his small cashew processing plant with the national government because he is not yet prepared to meet the requirements of the Ghana Food and Drug Administration.

*3.2.11 Physical Location.* Owner 4 is able to delay registration of his cashew plant with the Ghana Revenue Authority because his business is small and located in a village outside the regional capital. Owner 2 cited the small size of his business—he “doesn’t see it as a major enterprise”—as the reason he did not feel compelled to register it at all. He cited its remote location as the reason he has thus far avoided trouble from government officials (aside from giving them free water when they happen to visit).

*3.2.12 Unregistered May Go Unpunished.* Although some respondents reported fines and even company closure for failure to properly register a business, others indicated that unregistered businesses would simply pay a bribe along with regular taxes to avoid trouble. In some cases, it seemed that it was cheaper to pay the occasional bribe, than to complete the registration process. This is an area that requires further consideration given the importance of utility maximizing behavior in macroeconomic models.

*3.2.13 Negotiating.* Owner 3 and Owner 4 both mentioned that one benefit of being in good standing with the local and national government was that you would be able to negotiate your tax bill when your business was not doing well (although there is no evidence

that this is a legal benefit). It seems that being registered was a signal to tax collectors that you were trying to do the right thing which, perhaps ironically, gave you more ability to negotiate an illegal reduction of your payment during difficult times.

*3.2.14 Paying a Flat Rate.* It might seem that a business which is not making money would automatically pay less in taxes but, for these micro-businesses, taxes are either paid as a flat rate based on the size and type of business, or determined by an audit which includes personal factors such as where you live, where your kids go to school, whether you have a car, etc. These methods are necessary because most micro-businesses in this context do not keep records of their revenues and expenses.

*3.2.15 Access to Bank Loans.* One benefit of registering with the national government is that you can open a commercial bank account in your company's name and apply for a loan in your company's name. With interest rates in excess of 30%, this did not seem to be a particularly valuable benefit. As Owner 2 said, "I just use my personal bank account for now." With credit scores being virtually non-existent in Ghana and Ivory Coast, there was little difference between taking a loan in a company's name and taking a personal loan. This could be a more valuable benefit for larger companies with multiple owners or investors.

*3.2.16 Customer Legitimacy.* Responses regarding how registration effected legitimacy were mixed. For respondents who have a business-to-customer model, no increase in legitimacy due to registration was reported. For respondents like Owner 1, who have a business-to-business model, registration "shows that you have a serious business. Your registration number appears on your invoices." Local customers seemed to place little value on registration status but other businesses, and particularly foreign companies, view registration as a sign of legitimacy and in many cases a requirement to do business.

*3.2.17 Multi-National Enforcement.* Selling products to multi-national companies is almost certain to require registration at the national level and evidence of a registration number. This also applies for those who wish to contract with multi-national companies. Owner 5 was required to register with the Ghana Revenue Authority as a condition of being allowed sell products on behalf of Vodafone and MTN, both large telecom companies. She argued that her customers did not find her formal registration to be a signal of legitimacy. Working with Vodafone and MTN automatically conferred legitimacy. She perhaps overlooked the legitimacy that Vodafone and MTN may have as a result of requiring their agents to operate lawfully.

### *3.3 Phase Two: Interviews in the Field*

The second phase of data collection consists of a selective sample of twenty-five entrepreneurs: eight from the Nafana ethnic group in the Ivory Coast, nine from the Nafana ethnic group in Ghana, and eight from the Bono ethnic group in Ghana. In addition to their ethnic and national affiliations, these respondents were selected because they represent a wide array of business types and registration decisions (as shown in Table 2). The entrepreneurs that were chosen for the second round of data collection mirror the initial sample, but interviews were completed in person at the respondent's place of business. While the phone interviews identified seventeen possible factors, many of these were only supported by one or two respondents and, in some cases, respondents did not agree. Extending the sample allowed for further development of the initial coding by adding detail, corroborating tentative suggestions, and resolving conflicting responses (Grodal et al., 2020). Initial codes were then combined and developed to form tentative theoretical categories (Charmaz, 2006).

Table 2. Field Interview Participants

Respondent	Venture	Nationality	Ethnicity	Registration
Owner 7	Fruit Seller	Ivory Coast	Nafana	None
Owner 8	Mobile money and phone credit sales	Ivory Coast	Nafana	Local and National
Owner 9	Motorcycle Repair	Ivory Coast	Nafana	Local
Owner 10	Vegetable Seller	Ivory Coast	Nafana	None
Owner 11	Electronics Store	Ivory Coast	Nafana	Local and National
Owner 12	Fabrication and Engineering	Ivory Coast	Nafana	Local
Owner 13	Electronics Repair Shop	Ivory Coast	Nafana	Local
Owner 14	Carpenter	Ivory Coast	Nafana	None
Owner 15	Printing Shop	Ghana	Nafana	Local and National
Owner 16	Cashew Trading	Ghana	Nafana	Local and National
Owner 17	Gift Shop	Ghana	Nafana	Local
Owner 18	Retail (backpacks)	Ghana	Nafana	Local and National
Owner 19	Mechanic	Ghana	Nafana	Local (association)
Owner 20	Cashew Trading	Ghana	Nafana	Local
Owner 21	Pharmacy	Ghana	Nafana	Local and License
Owner 22	Provision Store	Ghana	Nafana	None
Owner 23	Seamstress	Ghana	Nafana	Local
Owner 24	Boutique	Ghana	Bono	None
Owner 25	Mobile money and phone credit sales	Ghana	Bono	National
Owner 26	Pure Water Sales	Ghana	Bono	None
Owner 27	Provision Store	Ghana	Bono	Local
Owner 28	Electrician	Ghana	Bono	Local
Owner 29	Welding Shop	Ghana	Bono	Local
Owner 30	Salon	Ghana	Bono	Local and National
Owner 31	Provision Store	Ghana	Bono	Local and National

### 3.4 Developing Categories

Contrary to expectations, seventy-six percent of the sample were registered in some form, and those that were unregistered still paid some form of taxes to the local government.

Broad conclusions about registration rates cannot be drawn with a sample of only twenty-five entrepreneurs. However, it is worth noting that the majority of the entrepreneurs who were interviewed considered it normal to be registered with the local government. As this finding emerged through the interview process, I began asking respondents for more detail about the differences between local and national registration.

*3.4.1 Legitimacy.* There were significant differences between responses regarding the effect of registration on legitimacy. For business-to-consumer ventures, none of the entrepreneurs in the sample reported an increase in legitimacy as a result of registering their business. Owner 22, who has a small provision store, stated “My customers don’t care if I’m registered. They know that the food and drug board checks on my products”. However, for business-to-business and business-to-government ventures, registration was considered an important source of legitimacy, and in some cases, was required to do business. Several respondents stated that registering their business at the national level resulted in the assignation of a business tax identification number (TIN), which is required to sell any product or service to government officials. Many of the large, multi-national companies have a similar requirement.

*3.4.2 Moral Obligation.* Entrepreneurs in this sample were reluctant to discuss whether failing to register a business was unethical. Two respondents indicated that they thought not registering a business was wrong, but they limited their comments to “Yes, it is wrong.” (Owner 18) and “Everyone should do it.” (Owner 23). Others were more circumspect, with Owner 13 saying “I don’t know.” and Owner 15 offering that “It depends.” The majority gave simple, negative responses to the question of whether it was wrong to not register a business: Owner 29 characterized the majority in saying simply, “No, not really.”

*3.4.3 Tax Morale.* Although most respondents were reluctant to pass moral judgement on the registration decision, they were unanimous in questioning the use of their registration fees and taxes. Many respondents cited the general condition of the roads and electric grid. Others were more specific, with Owner 12 saying “I’m taxed for streetlamps – no streetlamps. I’m taxed for garbage collection – no garbage is collected.” The consensus was that most of the taxes and fees that are collected go into someone’s “pocket”, although Owner 27 was more outspoken when she said, “They take it and put it in foreign bank accounts because they are selfish and evil.” While a few of the other entrepreneurs would have agreed with Owner 27, most were more inclined to view corrupt activity as a societal norm and a cost of doing business. None of the respondents cited a specific person or incident (although we would expect self-preservation to temper responses).

*3.4.4 Cost and Convenience.* In both Ghana and the Ivory Coast, local registration was much simpler and more affordable than national registration. This was particularly pronounced in Ghana, where tax collectors from the District Assembly are able to register a business on the spot, but there are no local, or even regional, offices to register a business with the Ghana Revenue Authority. Respondents were unanimous in saying that local registration was available immediately, but the cost varied from free to “a small fee”. Owner 30 said that she did not have to pay a fee because she knew someone from the tax collector’s office. Registering at the national level was reported as being more expensive, with Owner 11 reporting a cost of 25,000 CFA (42 USD) in The Ivory Coast and Ghanaian entrepreneurs reporting a range from 300 GHS (55 USD) to 450 GHS (82 USD). Owner 15, who reported the total cost of 450 GHS, added that the receipt he received was for only 60 GHS (11 USD). Ivorian entrepreneurs reported that registration took approximately one week, while

Ghanaian entrepreneurs reported closer to one month. Both governments advertise online registration, but none of the entrepreneurs in this sample had utilized this resource. Owner 15 said that he attempted to use the Ghana government website, but it did not work for him. He had to hire an agent in the regional capital to file paperwork in the national capital on his behalf. Improved accessibility and regular reminders have both been shown to positively affect tax compliance (Dwenger et al., 2016; Hallsworth et al., 2014) and we could reasonably expect this to translate to business registration.

*3.4.5 Having an Education.* Education data was not collected for the entrepreneurs in the sample, but many of the respondents who had more successful, registered businesses implied that business owners who did not register their business lacked education. Owner 16 said, “they simply don’t understand that the government must have money to provide services. Even if some of the money gets chopped.” Despite this viewpoint, Owner 16 did not go as far as to say that not registering a business was wrong.

*3.4.6 Being Informed.* Of the twenty-five entrepreneurs in the sample, nineteen said they were unaware of any government programs that educate people about how their taxes will be used. All six respondents who were aware of government education programs were registered locally and five of them were registered nationally. This group had been more proactive about seeking information at the District Assembly office or online. Owner 15 had even traveled to another District to compare tax rates. The majority were reliant on the tax collector for any education about business registration that they might receive.

*3.4.7 Location and Size.* In a cash economy, the only evidence that a business exists is its physical presence. Businesses that do not have a storefront, or are in a secluded location, have a very low risk of being detected. Because most small businesses in Ghana do not keep

books, their tax burden is largely based on the size of the business. This policy may be seen to stymie growth. Owner 21 moved to a smaller room to reduce his tax burden. A metal building is taxed at a higher rate than a wooden structure. Owner 24 said that she maintains a tarp and wood structure located outside of the main market area which allows her to avoid taxation altogether. She packs up all her goods at the end of each day and takes them home.

*3.4.8 Limited Return on Registration.* For most respondents, there was simply little value in registering their businesses. Some of the respondents were aware that registration was necessary to open a commercial account at a bank and get a business loan. However, Owner 22 explained that this was not actually valuable since interest rates are well in excess of 30% per annum. Owner 25 is registered nationally because she is a contractor for a multi-national telecommunications provider that requires formal registration. Owner 11 and Owner 15 both benefitted by selling their product to government officials. The benefit of gaining access to government contracts and selling to government officials did not appear in Phase 1 but emerged as one of the most direct benefits of business registration in Phase 2. Several respondents mentioned that being in good standing with the local government made it possible to negotiate a tax break if your business was not prospering. Apparently, being proactive about legally registering a business afforded greater opportunity for these entrepreneurs to pay a bribe and reduce their tax bill.

*3.4.9 Limited Punishment for the Unregistered.* Tax collectors in Ghana walk their territory street-by-street and collect taxes. Businesses that have not previously registered are added to the government records on the spot. Everyone that is conducting business when the tax collector comes by will pay taxes, and storefronts that are not open will receive a notice to pay. No one is able to avoid taxes by not being registered, but there was also no penalty

reported for failure to register. This system is possible because of the flat-rate tax charge that small businesses in Ghana pay. For larger businesses, an audit system is implemented.

In Ivory Coast, if you are registered and do not come to the office to pay your taxes, government officials may come to shut your business down. However, much like Ghana, there are traveling tax collectors who visit the micro-businesses and collect a flat rate based on the size of the business. These entrepreneurs are not expected to register with the local or national governments.

### *3.5 Registration Levels*

After completing the second phase of data collection in Study 1, I found that my original research question had over-simplified the dependent variable. I had begun by asking what factors influence a nascent entrepreneur's decision to either register their business or refrain from registering their business in a developing context. After interviewing entrepreneurs in Ghana and Ivory Coast, I found that most businesses are registered at some level, and those that are not registered tend to be quite small or isolated. Within the group that were registered, there proved to be two levels: local and national. Entrepreneurs who registered their businesses chose among registering at the local level only, at the local and national level or, in rare cases, at the national level only. The paucity of examples of national level only registration led me to simplify to three possible outcomes – unregistered, locally registered and nationally registered – instead of my original dichotomous – registered or unregistered – framing.

*3.5.1 Unregistered.* Six of the twenty-five entrepreneurs in the sample were unregistered. Their businesses were among the smallest, with only two of them having an employee. These entrepreneurs did not feel that registering a business applied to them. They

were not familiar with the price or the process of registration. However, only one of the unregistered respondents reported never paying taxes or fees. Even the fruit, vegetable and pure water sellers pay taxes to collectors on market day.

*3.5.2 Local Registration.* In this sample, registering with the local government was the most common status, consisting of eleven entrepreneurs. There was consensus among respondents that this is easily the most common registration status in rural Ghana and Ivory Coast. Government officials at the local level have detailed knowledge of the territory they administer and are able to closely monitor business activity. In this sample, entrepreneurs who were only registered at the local level were likely to be self-employed in trade jobs such as an electrician, a seamstress, a welder, or a mechanic, or they sold basic goods, gifts, or provisions. Many of these ventures employed one or two assistants, but none provided significant employment. The entrepreneurs who owned these ventures mostly allowed the government to come to them for registration and tax collection purposes. They preferred to minimize their contact with government officials and only met the minimum requirements to avoid being troubled further.

*3.5.3 National Registration.* Eight entrepreneurs reported being registered with the national government, although Owner 18, Owner 30 and Owner 31 reported that the national tax collectors registered them while visiting their place of business. This was inconsistent with other reports that it is necessary to file for national registration in the capital. These three ventures are also more characteristic of the locally registered businesses: a backpack shop, a salon, and a provision store respectively. Among the other five ventures that reported being registered nationally, Owner 8 and Owner 25 were contractors for a multi-national telecommunications company, Owner 11 and Owner 15 did business through their national

port-of-entry, and Owner 14 provided printing services for the government. Three of these five entrepreneurs operated multiple small businesses, simultaneously.

Only one entrepreneur in this sample was registered at the national level but not the local level. This combination seems to be rather unlikely. Owner 25 is a contractor for a multi-national telecommunications company that requires her to register nationally and have a TIN for her venture. She sells phone credit and completes mobile money transfers from a small kiosk outside the city center and has thus avoided the attention of local government officials.

### *3.6 Phase Three: Theoretical Sampling*

Although interviewing entrepreneurs in the field answered many of my early questions and clarified conflicting viewpoints from the phone interviews, I was still left with missing information and some instances of inconsistency. I felt that interviewing additional entrepreneurs would not lead to the type of answers I needed, since they did not seem to have a full view of the registration picture. To address the remaining gaps in my data collection, I employed a theoretical sampling technique and shifted to a different sample: institutional actors who work with entrepreneurs. I interviewed a local tax collector, a national tax collector, an entrepreneurship educator, and a business registration agent (see Table 3). These additional participants added “theoretical density” (Charmaz, 2006) by filling gaps in my understanding of the registration process. In addition to explaining the registration processes more clearly, these institutional actors offered a new perspective on entrepreneurial behavior since they were one step removed from the entrepreneurial process.

Table 3: Theoretical Sample of Institutional Actors

Position	Affiliation	Nationality	Ethnicity
Local Tax Collector	District Assembly	Ghana	Nafana
National Tax Collector	Ghana Revenue Authority	Ghana	Nafana
Technical School Instructor	Technical School	Ivory Coast	Nafana
Business Registration Agent	Ghana Revenue Authority	Ghana	Bono

### 3.7 Theoretical Concepts

With data collection for Study 1 complete, I took the categories that emerged while interviewing entrepreneurs and combined and expanded them, using the additional interviews from my theoretical sample to develop theoretical concepts (Charmaz, 2006). Although I continue to cite specific interview responses, these concepts are largely removed from the language of my participants, and instead attempt to explain the overarching motivation behind registration behavior. I discuss each theoretical concept as it applies to different levels of business registration. My interview with the Ghana Revenue Authority tax collector in the district capital of Sampa revealed that the national government has a provision to register small businesses with total tax payments under 400 GHS (73 USD) using a ledger system, much like the one used by the local government. These small businesses are not required to formally register in the capital but are added to a list at the local office and given a tax stamp booklet. This explains the three entrepreneurs who claimed to be registered at the national level, but who had not filed paperwork in the capital. Since these ventures are much like the ventures that are only locally registered, I have moved them to this category.

*3.7.1 Legitimacy.* For many entrepreneurs, registration is one of the milestones indicative of early-stage legitimacy building. I find that in a developing economy context,

this view of business registration did not translate for unregistered and locally registered ventures. The ventures in my sample that are unregistered were not concerned with legitimacy since they were selling basic food stuffs using the replicative business models characteristic of what our literature calls necessity entrepreneurship (Dencker, Bacq, Gruber & Haas, 2021). They gain what legitimacy they need by presenting their product to mimic their competitors in the market. Those who are only registered locally seemed to gain their legitimacy through being imbedded in the community. Their reputation – as an electrician, seamstress, etc. – is well-known to others in their community and they do not seek customers outside their immediate geographical location.

For the four ventures that had completed full registration at the local and national level, business registration was tied to legitimacy with at least some of their major stakeholders. For Owner 8 it was legitimacy with a multi-national company, for Owner 11 and Owner 15 it was legitimacy with government agents, and for Owner 16 it was both. Some of the entrepreneurs who had only registered locally aspired to grow their businesses in the future and mentioned that national registration would be one of the next steps in their venture's growth. It seemed that national registration was associated with becoming a "serious" business, whereas local registration was viewed as a necessary inconvenience with no discernable benefit. The entrepreneur who was registered at the national level only reported that she gained no legitimacy with her customers by being registered with the national government. She said that her legitimacy comes from being associated with a large, multi-national company. She did not seem to consider the possibility that the multi-national company might gain legitimacy by insisting that its contractors be formally registered.

3.7.2 *Complexity*. Hernando de Soto has illustrated both the importance and the complexity of registering property in developing economies. His research in South America found that registering a small venture could take hundreds of days and cost months of income (de Soto, 2001). This research has led development institutions to press developing governments to facilitate business activities. One of the most notable examples is the World Bank's Ease of Doing Business Index, which ranks countries based on ten indicators including items such as Starting a Business, Getting Credit, Paying Taxes, and Enforcing Contracts. Scores are tracked closely by many developing governments because many multinational companies consider these scores when determining how they will invest capital. Ivory Coast ranks 110<sup>th</sup> and Ghana 116<sup>th</sup> among the 190 countries in the index. However, Ivory Coast ranks 29<sup>th</sup> at the Starting a Business indicator (a combination of time and cost of business registration) compared to Ghana at 118<sup>th</sup>.

This is consistent with interview responses where Ivorians reported that national registration took one week, whereas Ghanaian reported that it took more than a month and complained of the necessity to file paperwork in Accra, the nation's capital. My interview with the Ghana Revenue Authority tax collector in Sampa, Ghana revealed that, for very small businesses that do not require a TIN, registration is available locally. It is also worth noting that Ghana has Small, Medium and Large Tax Offices and Sampa is a sub-office of a Small Tax Office, meaning that it is quite small and offers limited services. Even for a larger tax office like the one in the regional capital, Sunyani, filing paperwork in Accra is necessary for full registration. I interviewed a business registration agent in Sunyani (essentially a government contractor running an independent business with an office in the government building) who explained the process in greater detail. He helps entrepreneurs complete the

paperwork for a variety of entity types, from sole proprietor to charitable organization to corporation, and ensures that they are filed properly in the capital. His fees vary considerably based on the type of entity and the level of service he delivers, which may explain some of the variance in cost reported by entrepreneurs. He echoed Owner 15 in saying that he did not trust the online registration system. He also avoided the Ghanaian mail system, choosing instead to send paperwork via the private bus system.

*3.7.3 Citizenship.* As I have discussed, the tax literature overwhelmingly reports that individuals pay more taxes than economic models would predict. This suggests that the decision is more than monetary, and individuals consider other factors such as ethical concerns or contributing to their community or country. Ghana is 182<sup>nd</sup>, one of the very worst in the world, at the Ease of Doing Business indicator for Paying Taxes (Ivory Coast is 114<sup>th</sup>). The complexity and cost of paying taxes in Ghana is very high, yet Ghana easily topped the twenty African countries in a 2013 Organization for Economic Cooperation and Development (OECD) study that asked respondents if the tax department always has the right to make people pay their taxes (OECD, 2013). Ivory Coast was not included in the OECD study, but Ivory Coast was second and Ghana sixth among thirty-six nations in the 2017 Afrobarometer study with, respectively, 83% and 79% responding “yes” to the statement, “Citizens must pay taxes if the country is to develop”.

These studies do not contradict the interview responses from my sample, but it does seem that entrepreneurs in Ghana and Ivory Coast have a nuanced view of taxation. None of the respondents in my study reported intentional tax avoidance (one respondent reported that the tax collectors rarely come to her place of business). Tax compliance was high in my study, although it is important to recognize that not paying taxes is illegal which, when

coupled with social-desirability bias, could skew self-reported tax behavior. On the other hand, tax morale was low, with respondents questioning the link between tax payments and provision of public works. This is an area for further research, but it seemed that entrepreneurs felt that paying their taxes was the duty of a good citizen and that public works would eventually follow.

*3.7.4 Transparency.* Throughout the study, the theme of education was repeatedly discussed, either in terms of the need for individuals to be educated or the need for the government to educate individuals. Since tax morale is strongly tied to how citizens feel that their taxes are being used, it is important that they understand what the government is doing with tax revenue (Kirchler, 2007; Torgler and Schneider, 2009). Upon visiting the District Assembly and Ghana Revenue Authority tax collector's offices, I found that there were well-defined rules and regulations regarding business registration and the associated fees and taxes. Both offices offer periodic, public information sessions which are advertised on the radio. They informed me that there is poor attendance at these meetings. The Ghana Revenue Authority and Directorate General for Taxation in Ivory Coast have websites that provide detailed information about business registration and tax rates.

Government officials in both countries feel that they are providing appropriate educational resources, but the entrepreneurs in my sample largely avoided these resources because they do not feel confident about the outcome when they interact with government officials. At the local level, information about business registration can be found at the District Assembly offices, but most citizens avoid the offices because they would rather avoid attention from the government. Paradoxically, this leads to citizens receiving information directly from the tax collector during one-on-one interactions, a scenario that is

more likely to promote corrupt behavior. Government officials are providing education, but citizens mistrust government officials. Ironically, this creates a situation where citizens are uneducated, and thus more likely to be preyed upon by a corrupt official.

One alternative source for education about registration and taxation could be the education system, although this option is limited given that 38% of my sample lacked a high school education. Unfortunately, even those entrepreneurs who have a business education may not have education about business registration. The technical school instructor I interviewed in Ivory Coast reported that, while he does teach about taxation, his government-mandated syllabus does not include information about business registration. Government policy to push this type of information in the formal education system would help, but the best hope for distributing registration information probably lies with the continued growth in smartphone usage which increases access to online resources.

*3.7.5 Visibility.* In developed economies, receipts, bank statements and credit card transactions are used to track business activity. The tax collectors in my sample pointed out that these records do not exist for small businesses in Ghana and Ivory Coast, and few of them keep company books at all. As a result, small ventures pay a flat rate that varies based on size and industry. Underpaying, a common issue in developed economies (Alm et al., 1993; Alm et al., 1992), is not an issue with the smallest ventures, since they either pay or do not pay. For these micro-ventures, registration makes it impossible to avoid paying their full tax bill, while remaining unregistered leaves them with the possibility of concealing their venture in some way. For larger ventures that have a dedicated storefront or business location, avoiding tax payment is not possible. When these ventures feel that they are being over-charged on their taxes, they may ask for an audit. The tax collector will examine the

individual's spending habits – things like size of the home, where their children go to school, if they have a vehicle, etc. – to determine how much income the individual's business is providing. Entrepreneurs will attempt to hide indicators of their personal consumption from the tax collector.

This system effectively promotes either hiding a venture from the public or projecting business failure. Successful entrepreneurs in this sample pursued multiple small ventures, rather than growing a single venture. Tax collectors, on the other hand, waste enormous time mapping geographic locations for businesses and investigating individual spending habits. While the cash economy in rural sub-Saharan Africa is unlikely to change in the near future, better bookkeeping education would greatly improve the audit system. Many Non-Government Organizations (NGOs) are pursuing this goal but often entrepreneurs are loathe to create a tangible (visible) record of their income.

*3.7.6 Return.* The value in registering a business varies considerably depending on the size and type of venture and the goals of the entrepreneur. For the six ventures in my sample that were unregistered, there was no benefit to registration. They gain legitimacy in other ways, have no need of a TIN, are not qualified to take a loan, and are not focused on growth. These ventures help the owner to feed his or her family but do not generate excess revenue. The local government might occasionally charge one of these individuals a flat tax at the minimum rate. These ventures fall under the national government's zero tax rate so there is no incentive to register this type of business at the national level and no consequences for failure to register. This finding agrees with previous literature which argues that some ventures are simply too small to reap the benefits of registration (de Paula & Scheinkman, 2007; McCulloch et al., 2010).

For the type of ventures that tend to register at the local level, but not the national level, registration is largely unavoidable but offers little benefit. These ventures are often examples of self-employment where satisfactory regular employment is unavailable. They gain legitimacy through their reputation in the community, but this also makes registration unavoidable. There are no consequences for failing to register their business: they are simply registered on the spot by a tax collector during the regular tax cycle. These ventures are often technically registered at the national level, through the tax stamp system, but this type of registration does not confer any benefits or result in a TIN number. As the GRA tax collector put it, there is no reason to “open a file” on these businesses so long as their total tax payment is under 400 GHS (73 USD). These entrepreneurs are motivated to meet only the minimum requirement to avoid having their businesses troubled further.

Businesses that have fully registered with the national government are usually doing so in pursuit of some benefit. The entrepreneurs that own these ventures tend to have a growth strategy, whether through pursuit of government contracts or partnerships with large, multi-national companies. Many of the interviewees mentioned access to commercial loans, but with interest rates so high, this did not seem to be a practical benefit. These businesses were more likely to operate outside of their community, which could expose them to negative consequences if they attempted to cross borders or enter port facilities without proper documentation. However, most of the entrepreneurs in my sample discussed formal registration in terms of accessing opportunities, not avoiding consequences.

### *3.8 Study 1 Synopsis*

Data from Study 1 supported many of the economics literature’s findings on business registration but also provided fresh insights. For instance, legitimacy is rarely discussed in

the macroeconomic literature on registration but seemed to be a major factor for nascent entrepreneurs, as entrepreneurial frameworks would be more likely to predict. Another interesting finding is that the traditional discussion of tax evasion versus tax avoidance was only relevant for a few firms since most of the small enterprises in my study paid a flat rate. Perhaps most notable was the fact that so many of the ventures were registered. The six factors that I identified – legitimacy, complexity, citizenship, transparency, visibility and return – all effect the decision to register a business, but the order in which they are prioritized, and how they are weighed, varies significantly for different sizes and types of ventures. In Study 2, I explore the possible pathways that exist between the type of venture and the registration outcome, in an effort to better understand how nascent entrepreneurs weigh these six factors in their registration decision.

## CHAPTER 4

### STUDY TWO

In Study 1, I identified six factors that entrepreneurs in developing contexts consider when making their registration decision, but I found that different entrepreneurs weighed these factors in different ways. To better understand these linkages, it was necessary to begin by categorizing entrepreneurs in such a way that I could systematically consider the relationships between entrepreneurs, my six factors, and registration outcomes. In Study 2, I develop a typology of entrepreneurs that I incorporate in my proposed model, along with the six factors from Study 1 and the entrepreneur's registration decision, extended to include both local and national registration. I use a survey design to test the efficacy of my model and develop propositions about how different entrepreneurs weigh each factor.

#### *4.1 A Typology of Entrepreneurs*

I had expected to use an existing typology of entrepreneurs, but I found that existing literature (particularly research in developing economies) was largely limited to delineating between necessity-motivated entrepreneurship and opportunity-motivated entrepreneurship (McMullen, Bagby & Palich, 2008; Reynolds, Camp, Bygrave, Autio & Hay, 2002), most often conceptualized within a push-pull framework (Storey, 2016), with necessity entrepreneurship occurring when individuals are pushed into entrepreneurship by negative forces such as job loss, and opportunity-motivated entrepreneurs pulled into entrepreneurship by its attractiveness (Uhlener & Thurik, 2007; Williams, 2009). A growing body of research has suggested that this dichotomy is over-simplified, and unable to account for the wide array of antecedents, processes and outcomes that occur in developing and developed contexts

(Coffman & Sunny, 2020; Rosa, Kodithuwakku and Balunywa, 2006; Gurtoo and Williams, 2009; Williams and Round, 2009; Williams and Nadin, 2010).

Although available entrepreneurship typologies were limited, researchers have proposed quite an array of entrepreneurship types. These vary widely in terms of context and level of analysis (e.g. Filley & Aldrag, 1978; Gray, Foster and Howard, 2006; Woo, Cooper & Dunkelberg, 1991), which led me to seek a unifying framework. Dencker et al. (2021) reconceptualized necessity entrepreneurship through the lens of motivational theory, utilizing Maslow's (1954) hierarchy of needs framework, a motivation theory that uses five categories of needs to explain human motivation. I found the link between previous literature's discussion of the necessity entrepreneur, and the two lowest levels in Maslow's (1954) hierarchy – physiological needs (food and water) and safety needs (security and basic financial) – to be intuitive, and applicable in both developed and developing contexts. Coffman and Sunny (2020) extended this framework to include opportunity entrepreneurs, which they associated with the three highest levels of Maslow's hierarchy: the need for belongingness and love, the need for esteem, and the need for self-actualization. In his later work, Maslow would concede that his hierarchy “is not nearly as rigid” (1987 p.68) as he may have implied in earlier descriptions and that most behavior is multi-motivated: “any behavior tends to be determined by several or all of the basic needs simultaneously rather than by only one of them.” (1987 p.71). Considering Maslow's spectrum of needs “behind which we cannot go” (Maslow, 1954, pg. 22) served as a guide in structuring my typology consistently at a single level of analysis given that individual needs play an important role in the type of venture an individual founds (Dencker et al., 2021). This led me to propose five

types of entrepreneurship: aspirational entrepreneurship, commercial entrepreneurship, self-employed entrepreneurship, temporary entrepreneurship, and subsistence entrepreneurship.

*4.1.1 Aspirational Entrepreneur.* I use aspirational entrepreneurship to describe ventures that are formed with a primary purpose other than economic return. This could include any number of causes such as protecting the environment, promoting human rights or other norms, changing public policy or improving institutions. In many cases, individuals who found aspirational ventures begin with a cause, and seek a business opportunity to support that cause. Thus, they can hardly be categorized as being pulled into entrepreneurship by the attractiveness of an opportunity, but we would not describe them as necessity entrepreneurs either. They are likely to endogenously create opportunities with longer payout periods and higher risk given that financial return to themselves or their investors is not of primary importance, although they may also be motivated by economic incentives (Almandoz, 2012, 2014; Carter & Ram, 2003; Weber, Heinze, & DeSoucey, 2008; Westhead, Ucbasaran, Wright, & Binks 2005; York, O'Neil & Sarasvathy, 2016). However, exogenously created opportunities may arise that can be exploited to support a cause, such as selling merchandise with slogans that support a certain cause in a time where that cause is threatened (i.e. selling a t-shirt supporting an environmental cause during a time when wildfires are active). These individuals may be motivated by belongingness and love needs, self-esteem needs, and/or self-actualization needs, and may use a wide array of entrepreneurial processes. However, the complex challenges associated with supporting a cause while earning income are likely to call for more innovative entrepreneurial processes, particularly given the lack of historical precedent for this type of entrepreneurship. Social entrepreneurs, environmental entrepreneurs, institutional entrepreneurs, norm entrepreneurs,

policy entrepreneurs and many serial entrepreneurs would fit in the aspirational entrepreneurship category.

*4.1.2 Commercial Entrepreneur.* I use commercial entrepreneurship to describe ventures that are formed for the primary purpose of generating economic return (although power, prestige or status may also be involved (Carsrud & Brannback, 2011)) through bringing an innovative solution to market. Individuals who found commercial enterprises are more likely to be growth-oriented and focused on building an organization. They are also more likely to identify themselves as entrepreneurs or as businesspeople. These are the individuals we would label as opportunity entrepreneurs in both developing and developed contexts. They may pursue exogenously created opportunities, but often prefer endogenously developed opportunities that offer greater potential return based creating new solutions through innovative entrepreneurial processes. These opportunities may be higher risk, with longer payout periods, requiring significant upfront resources (Bhola, Verheul, Thurik, & Grilo, 2006). I argue that individuals in this category would primarily be motivated by self-esteem needs, but could also be motivated by safety and security needs, love and belongingness needs, and even self-actualization needs in the case where the individual's identity as an entrepreneur is viewed as integral to who they are as a person. Portfolio entrepreneurship and, in past research, managerial entrepreneurship (Cooper & Dunkelberg, 1986) would fit in the category of commercial entrepreneurship, as would many instances of corporate entrepreneurship and family business.

*4.1.3 Self-Employed Entrepreneur.* I use self-employment entrepreneurship to describe ventures that are formed to replace income that would otherwise be generated from employment. The line between self-employment and commercial entrepreneurship has long

been disputed (Welter, Baker, Audretsch, & Gartner, 2017), and a full consideration falls outside the scope of this study. I include own-account ventures, professional services and those who hire employees in support of their venture efforts (i.e., a lawyer who has an office assistant, a veterinarian who has technicians and kennels staff, or an electrician who hires an apprentice assistant). Perhaps the most compelling criterion for delineating between these entrepreneurs and commercial entrepreneurs is the way they identify themselves. We would expect self-employed entrepreneurs to identify themselves based on the work they do (i.e., handyman, private nurse, plumber, dentist, etc.) and their income to be contingent on doing more of that kind of work. Entrepreneurs participating in this type of venture would likely pursue market-inefficiency or exogenous shock opportunities and would likely begin by imitating others in their industry. However, these entrepreneurs would have greater resources to deploy with longer time horizons, so we would expect them to employ differentiating entrepreneurial processes to set themselves apart from their competition as their ventures become more established. The push-pull dichotomy is particularly ill suited to categorizing these ventures because their founders often have attractive employment opportunities that they forego. Sometimes they do so because the desire for autonomy or greater profit pulls them into founding a venture, but often they are pushed by pressure to continue the family business, called “dynastic compliance” (Orhan and Scott, 2001), or the inherent nature of their chosen profession (i.e., dentist, accountant or chiropractor) where self-employment is a product of choosing a particular occupation (Aronson, 2019; Dawson & Henley, 2012). I argue that, while these individuals may be motivated by the need for safety and security, they are more likely to be motivated by the need for belongingness and love (especially those who are involved in family business), as well as self-esteem needs. Artisan, hobby, lifestyle and

craftsman entrepreneurship would fit in the category of self-employment entrepreneurship, and individuals in these categories might also be motivated by the need for self-actualization.

*4.1.4 Temporary Entrepreneur.* I use temporary entrepreneurship to describe ventures that are formed for the purpose of spanning a period of unemployment (or other inactivity such as a summer between university terms), or to augment underemployment. Much of the research on necessity entrepreneurship in developed contexts would fall in this category (e.g. Andersson and Wadensjö, 2007; Block & Wagner, 2010; Caliendo & Kritikos, 2010; Cressy, 2006; Giacomini, Janssen, Guyot & Lohest, 2011; Klepper, 2009; Ritsilä & Tervo, 2002; Robichaud, McGraw & Alain, 2006; Santarelli and Tran, 2011; Wang, 2006). Unlike the subsistence entrepreneur, for whom satisfactory employment was never an option, individuals in this category have just entered the job market, or have suffered job loss and desire to resume employment. We categorize individuals who lose a job but choose to found a venture, rather than search for employment, in the self-employment, commercial or aspirational categories. Temporary entrepreneurship as we have defined it assumes an environment where desirable employment exists and is, consequently, more likely to occur in developed contexts. Developed economies tend to offer resources to meet physiological needs, but not necessarily safety and security needs (Dencker et al., 2021). Thus, we expect individuals in this category to be focused on earning money for housing, transportation, paying bills, and other costs associated with maintaining a stable living arrangement. Common activities in this category might include baby-sitting, driving for a rideshare company, tutoring or performance art. Such ventures might stand alone or might be run in conjunction with unsatisfactory employment (until a new job or promotion makes additional income unnecessary). Like the individuals participating in subsistence entrepreneurship,

temporary entrepreneurs are likely to pursue market inefficiency opportunities with short payback periods but, with fortuitous timing, they may be able to take advantage of an exogenously created opportunity (i.e., a commercial construction worker starting a new venture maintaining foreclosed property in an economic downturn). These individuals may imitate the processes used by other entrepreneurs in the same industry, or may pursue path dependent entrepreneurial processes to leverage skills and knowledge gained from previous experience (as in the case with the construction worker) (Dencker et al., 2021). When these ventures exceed expectations, the entrepreneur may terminate their job search, or other plans for the future, and focus entirely on the venture. In this case, we would move then venture into the self-employment, commercial or aspirational category. Individuals who ‘moonlight’ or participate in the gig economy would also fit in the temporary entrepreneurship category.

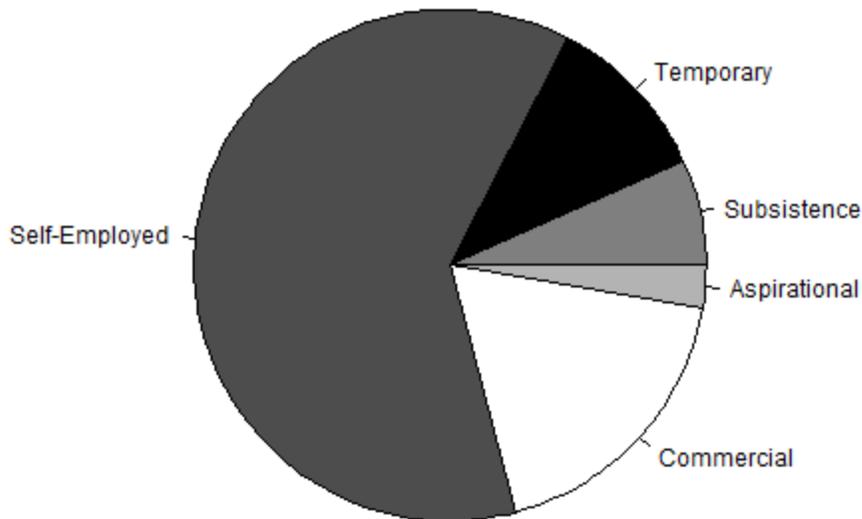
*4.1.5 Subsistence Entrepreneur.* I use subsistence entrepreneurship to describe ventures that are created for the purpose of survival. This is the type of entrepreneurship that researchers are referring to when they discuss necessity entrepreneurship in developing economy contexts, where satisfactory employment opportunities are nearly non-existent. These are generally sole-proprietor ventures (Vivarelli, 2013) engaged in replicative entrepreneurial processes (Dencker et al., 2021). I argue that individuals who found this type of venture are predominantly motivated by basic needs – certainly physiological needs, but also safety and security needs – and pursue market inefficiency opportunities. These opportunities may not be very valuable, as would be the case where the market is not currently providing fried yams on a particular street. Addressing such an inefficiency may only be worth a dollar or two a day. The individual who is motivated by meeting their physiological needs may be pushed to pursue such a low-value opportunity anyway, given

that they lack the time and resources to search for a better opportunity or integrate new knowledge to create an opportunity (Alvarez & Barney, 2007; Lazear, 2005), and failure could mean starvation. I expect these entrepreneurs to largely operate outside the formal economy (Webb et al., 2013).

#### *4.2 Data Collection*

The second round of data collection took place in January 2020. I surveyed a selected sample of entrepreneurs: 50 from the Nafana ethnic group in Ivory Coast, 50 from the Nafana ethnic group in Ghana, and 50 from the Bono ethnic group in Ghana. I used a selected sample rather than a random sample because my intention was to survey entrepreneurs across my five typologies (as opposed to eliminating sampling bias in hypothesis testing results). This was particularly true of the aspirational entrepreneurs in my sample. Entrepreneurial activity in rural Ghana and Ivory Coast is almost entirely motivated by revenue generation. I was fortunate to stumble upon an in-home nurse who uses the proceeds from her business to support health care efforts for the poor. I then searched for social entrepreneurs in Sunyani and found a small business incubator where I surveyed three additional social entrepreneurs to round out my sample. The rest of my sample was generated by starting on the rural outskirts of each city and working into the city-center, interviewing entrepreneurs ranging from those in small, roadside stands selling fruit and toiletries, to those in large, multi-story buildings such as hotels and private schools. While not a random sample, this method allowed me to survey a cross-section of entrepreneurs in varying sizes and locations. Despite selective sampling, the types of ventures in my sample are not equal, although I would argue that they are proportionate to the population (see figure 2).

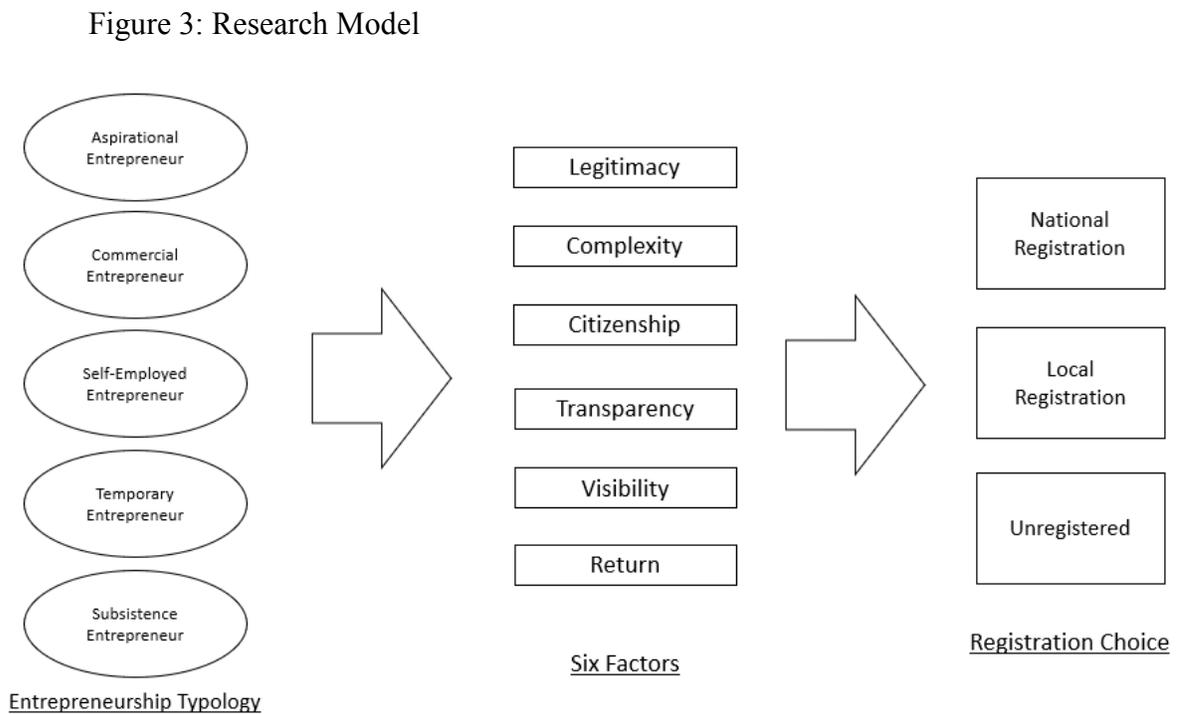
Figure 2: Proportion of Entrepreneur Types



Each survey lasted approximately twenty minutes, with three basic demographic questions at the beginning to allow respondents the opportunity to become comfortable with the question and answer format, then eleven questions about their business experience, current venture (including registration status among other questions to disguise the intent of the survey) and an open-ended question about their motivation in starting the business, followed by twelve Likert-style items – two for each of the six factors in Study 1 (see Appendix B for full survey). The duration of each interview varied based on the amount of time dedicated to culturally appropriate greetings prior to the start of the survey. However, this did not seem to translate into respondent fatigue as those who took more time with greetings, were also less concerned with the amount of time required to complete the survey. Respondents were given either 10 Ghana cedis or 1000 Ivorian CFA (a little less than 2 USD) at the end of the survey.

### 4.3 Model

In Figure 3, I illustrate the theorized relationship between entrepreneur type, the six factors I identify in Study 1, and registration choice. As my understanding of the registration decision has developed, I have split “Registered” into “Registered Nationally” and “Registered Locally”, conceptualized factors that entrepreneurs use in making the registration choice, and proposed a typology of entrepreneurs. In Study 2, I evaluate the efficacy of the factors from Study 1 and add clarity to the model by identifying the specific factors that different entrepreneurs weigh and how those factors determine their registration decision.



### 4.4 Analysis

The survey data was compiled into two datasets: (1) a profile for each of the entrepreneurs was created using the data about their business experience, current venture and motivation for starting the current venture and (2) a spreadsheet with venture type (derived

from the first dataset as described below), the twelve items for the six factors in Study 1, and registration status. Analysis then proceeded in two stages.

Using the profiles I created for the 150 entrepreneurs in the study, I assigned each entrepreneur to one of my five categories: subsistence, temporary, self-employed, commercial and aspirational. I then asked five other entrepreneurship scholars to view the profiles and assign each entrepreneur to one of the five categories (I added the option to select “Other” to allow for the possibility that my typology was not exhaustive). A high level of interrater reliability – consistency among responses (McGraw & Wong, 1996) – would indicate that my typology groups entrepreneurs into meaningful and discernable categories. I used Intraclass Correlation Coefficient (ICC) analysis to assess interrater reliability, using a two-way mixed-effect model to account for using the same raters for every subject, a single-rater ( $k=6$ ) rather than mean-rating since my ratings will be used in the analysis if found reliable (as opposed to the average of responses), and consistency rather than absolute agreement. I used the ICC package in R version 3.6.3, which calculates the six ICC forms from Shrout & Fleiss (1979). My combination of model, type and definition equates to ICC3 in the model output. My data yielded an ICC of .689 ( $p = 2.53e-143$ ) which, although there is not an agreed upon standard, is generally considered a “moderate” (Koo & Li, 2016) to “good” (Cicchetti, 1994) level of interrater agreement.

After establishing the efficacy of my typology, I proceeded to evaluate the efficacy of the model. Given the limited sample size and relative complexity of the model, my goal was simply a systematic exploration of possible relationships between venture type, registration factors and registration choice. I used the ggplot package in R version 3.6.3 to estimate and display my results. Each bar graph groups my respondents into one of my five proposed

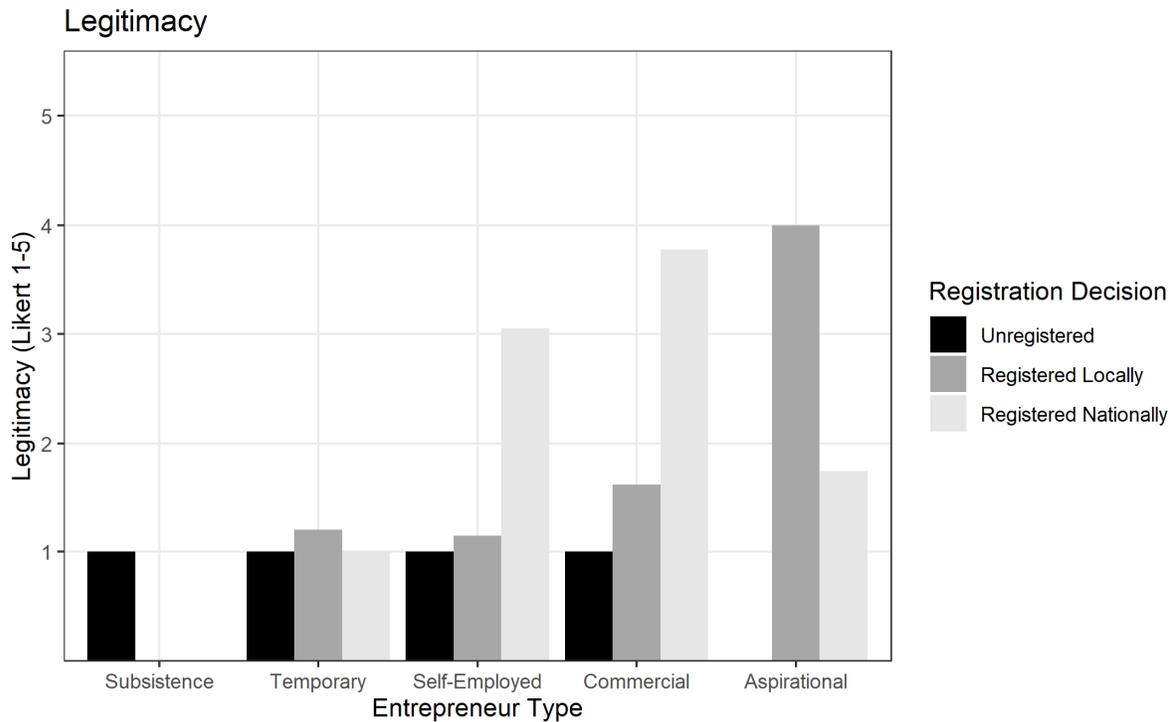
types. Within each type, I delineate based on registration status. The bars in each graph show the average Likert scale response to each of the six registration factors identified in Study 1, for each combination of type and registration choice. There were no locally or nationally registered ventures in the subsistence category, and no unregistered ventures in the aspirational category.

#### *4.5 Results*

*4.5.1 Full Sample.* The two legitimacy items in my survey asked respondents to report on the extent to which they gained legitimacy from business registration (see Figure 4). It was unsurprising to find that all of our unregistered entrepreneurs, across venture types, reported strongly disagreeing to both legitimacy items. Temporary entrepreneurs in our sample also reported gaining no legitimacy from venture registration, even those who had registered their ventures nationally. This is consistent with the expectation that these entrepreneurs are likely using imitative entrepreneurial processes to take advantage of market inefficiency opportunities with short payoff periods. Such models gain legitimacy through their immediate resemblance to similar ventures, not from their status with the state. There appears to be a trend among both locally and nationally registered ventures as we move from temporary to aspirational entrepreneurship, with the noteworthy exception of nationally registered aspirational entrepreneurs. We would expect ventures in this category to gain legitimacy from business registration, but entrepreneurs in this sample reported either disagree or strongly disagree responses. Unfortunately, the limited number of aspirational entrepreneurs in the study population and by extension, in the sample, resulted in only two participants who were nationally registered, aspirational entrepreneurs. These ventures—a women’s training center and a new venture incubator—may not be representative of the

category at large. On the other hand, aspirational ventures may gain legitimacy from social perceptions about their good intentions, making business registration relatively less important for them than for commercial entrepreneurs.

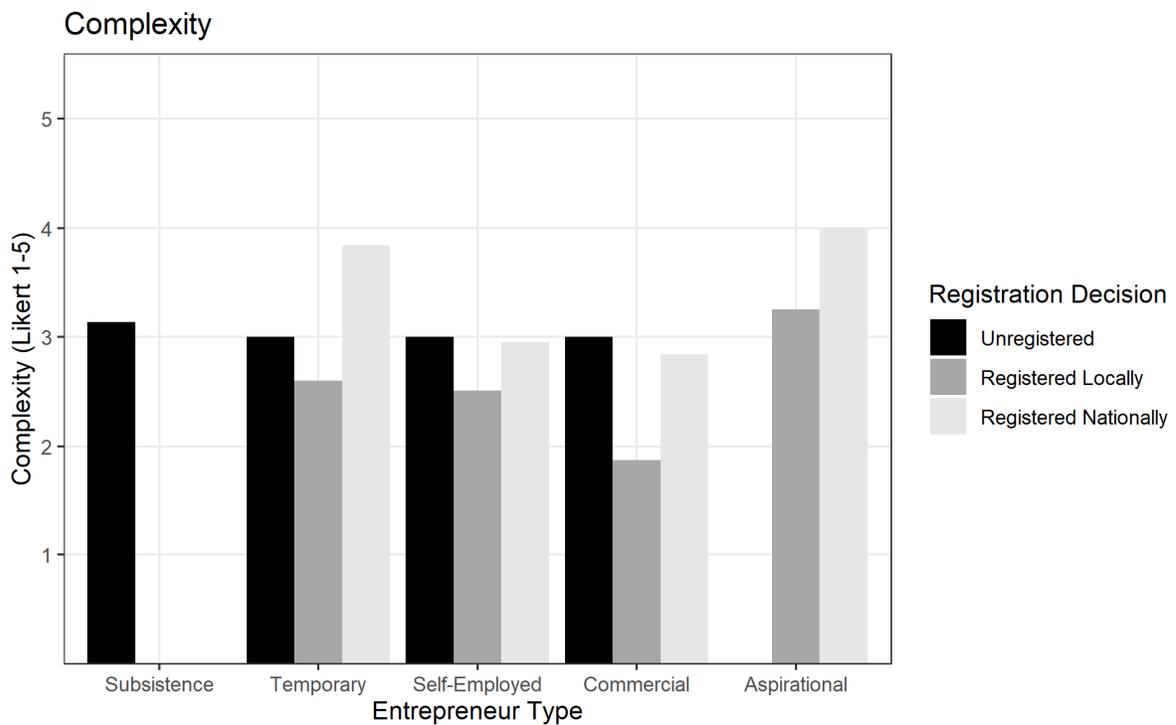
Figure 4: Legitimacy Gained from Business Registration



The two complexity items in my survey asked respondents to report on whether the cost and inconvenience of the process of registering their ventures prevented them from doing so (see Figure 5). Although much of the existing research on business registration highlights complexity as a major barrier, the ventures in this sample did not report complexity as a prohibitive factor. Owners of nationally registered ventures were somewhat more likely than the owners of locally registered ventures to agree that the registration process was overly complicated. This is not surprising given that tax collectors are able to complete local registration on the spot, while national registration requires travel to either the regional capital in the Ivory Coast, or the national capital in Ghana. Unregistered business

owners consistently reported being undecided about the complexity of the process, which suggests that they may not have been well informed about this factor. It could also be argued that past research has conflated complexity with corruption, or that the registration process has simply gotten easier with greater awareness of the problem among developing economy policymakers. For instance, between 2012 and 2013, the average number of days necessary to register a business in the Ivory Coast was reduced from thirty-two days to eight days according to the World Bank’s Doing Business report. Regardless, this factor was not reported as strongly influencing registration decisions in either direction.

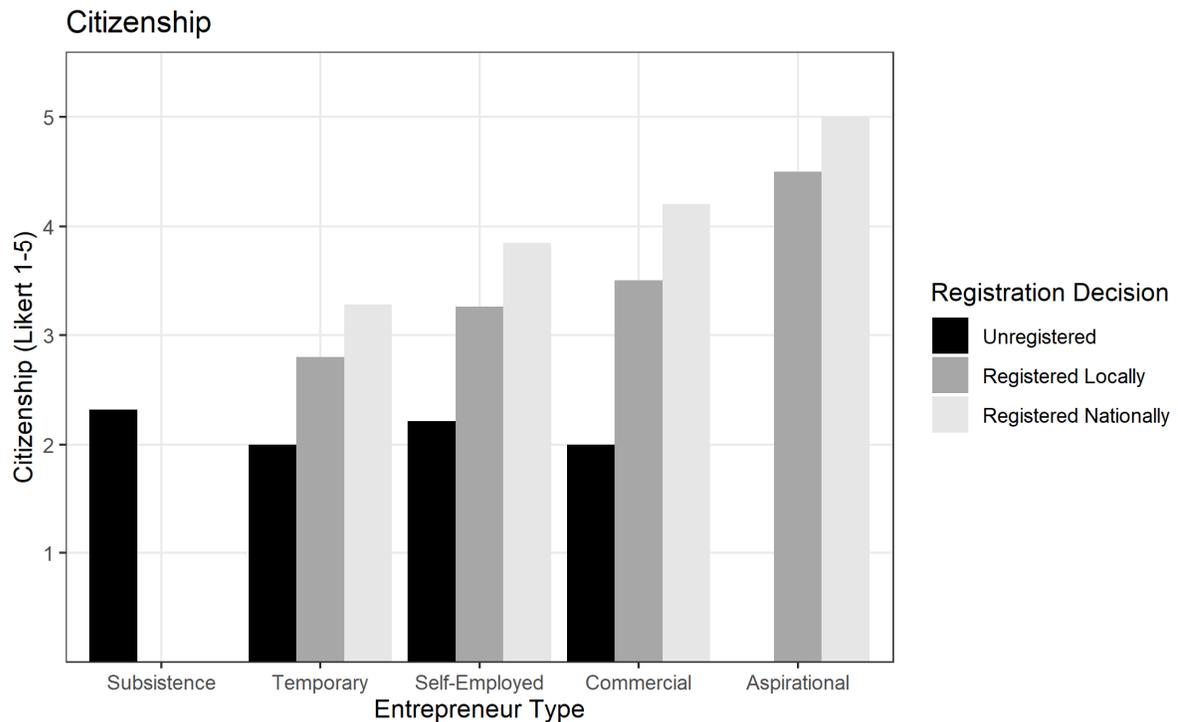
Figure 5: Complexity as a Barrier to Business Registration



The two citizenship items in my survey asked respondents if they thought business registration was the right thing to do, and if it was important for the development of the nation (see figure 6). As expected, entrepreneurs whose ventures were unregistered were consistent, across venture types, in disagreeing with the connection between registering a

venture and being a good citizen. On the other hand, we see a very consistent upward trend for both locally and nationally registered ventures, as we move from temporary entrepreneurship to aspirational entrepreneurship, with temporary entrepreneurs largely undecided, and aspirational entrepreneurs, particularly those whose ventures are nationally registered, strongly agreeing.

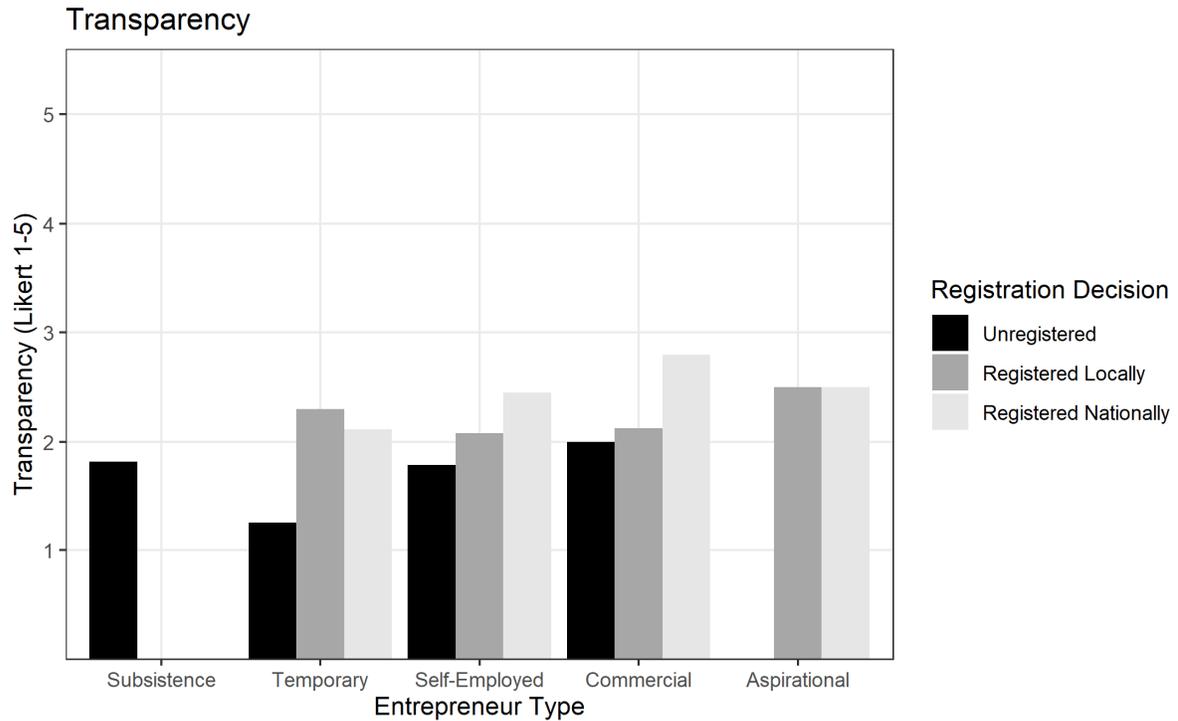
Figure 6: Business Registration as Evidence of Good Citizenship



The two transparency items in my survey asked respondents if the government provided sufficient information about registration, and if the government is clear about how taxes and fees resulting from registration would be used (see figure 7). Entrepreneurs whose ventures were unregistered tended to disagree with these statements more strongly than registered venture owners, but all respondent categories disagreed with these items on average. This finding suggests that better education might result in higher registration rates

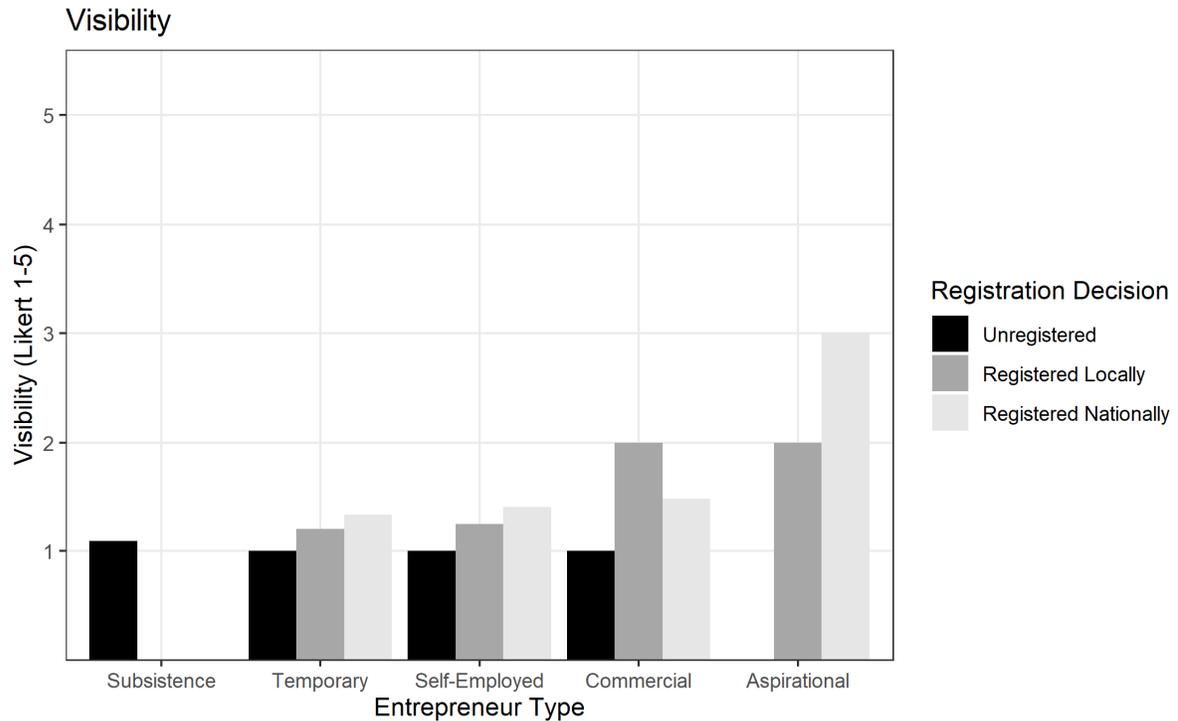
across categories. However, the government actors that I interviewed in Study 1 reported poor attendance at events designed to educate the public about business registration.

Figure 7: Government Transparency in the Business Registration Process



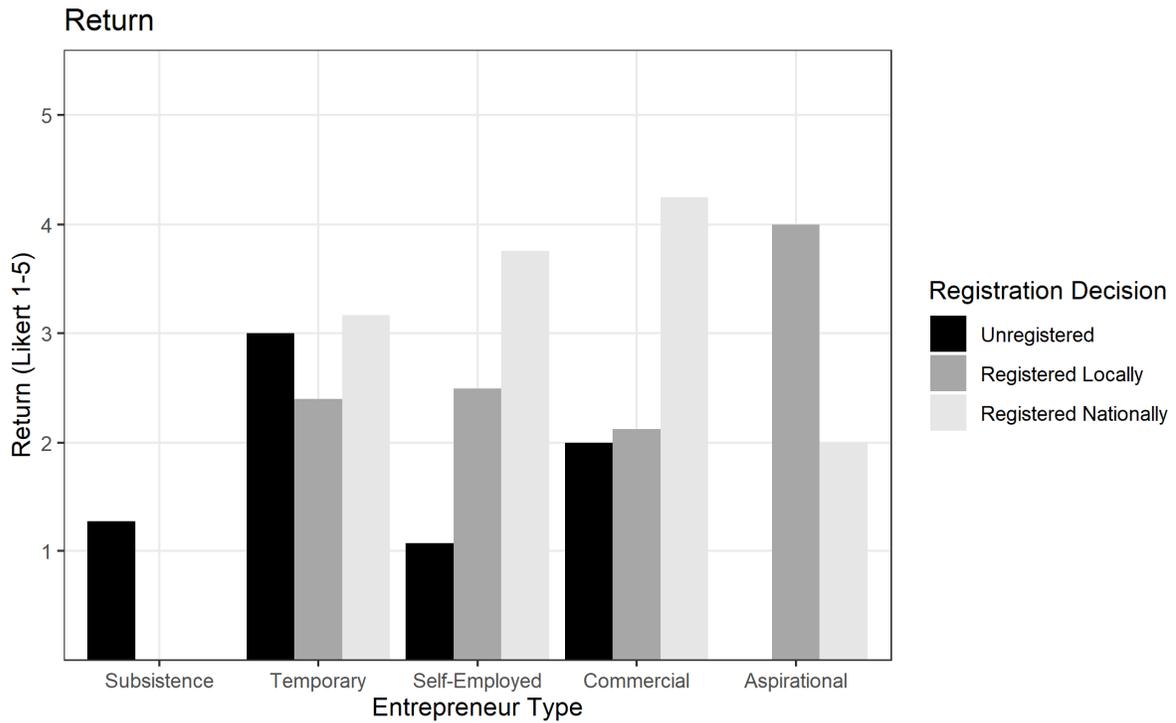
The two items I used to capture visibility in my survey asked respondents if the size or the location of their business made it necessary to register (see figure 8). While there was an upward trend for nationally and locally registered ventures as we move from temporary to aspirational entrepreneurship, most respondents strongly disagreed with these items. My pilot study suggested that some ventures might choose to stay small, or locate themselves outside of town, to avoid detection. While the size of the venture did determine the size of the tax fee for smaller ventures, and being located outside of town reduced the frequency of interaction with government officials, these factors did not seem to affect the decision to register the venture or to remain unregistered.

Figure 8: Visibility Necessitating Business Registration



The two items in my survey that capture return, asked respondent if they benefit from business registration, and if the benefits outweigh the costs (see figure 9). Responses to these items varied and no strong trend emerged, although, with the exception of nationally registered aspirational entrepreneurs, responses for registered ventures were more positive moving from temporary to aspirational entrepreneurship. We would certainly expect the owners of unregistered ventures to respond negatively to these items, given that the expectation of a positive return would presumably have led them to register their venture. More research would be necessary to understand the negative response from nationally registered, aspirational entrepreneurs but, as with the unexpected response for legitimacy, this finding may be a product of an idiosyncratic response from one respondent, given that there are only two entrepreneurs from my sample in this category.

Figure 9: Return on Business Registration



With the exception of the return factor, unregistered respondents were homogenous in their responses, regardless of the type of venture they founded. They did not feel that they would gain legitimacy from registering their ventures, seemed to be unfamiliar with the registration process, and felt that the government did little to justify its actions and thus disagreed with registration as a proxy for good citizenship, or doing the right thing. Both registered and unregistered venture owners reported that visibility had little or no effect on their registration. This study indicated that government officials had extensive knowledge of their territories and had the capacity to locate most ventures regardless of size or location. Exceptions to this rule were generally such small ventures that their registration was not a government priority. For registered ventures, variation among entity types was much more prevalent. Moving from temporary to aspirational entrepreneurs, legitimacy, citizenship and return were all reported as increasingly important factors. There was some variance in the

complexity responses, but this seemed to be a product of the cost and inconvenience of national registration, rather than inability to understand the complexity of the process. Registered respondents also reported little return on investment associated with business registration, with the noteworthy exceptions being those venture who sold to the government or worked with multi-national corporations. The limited number of respondents in the aspirational entrepreneurship category did seem to confound my results, but further research in this area would be necessary to understand if my results were idiosyncratic to the four individuals in this sample, or if they are in fact representative of the whole (recognizing that the number of aspirational entrepreneurs in rural Ghana and Ivory Coast is quite small).

## CHAPTER 5

### DISCUSSION

In the final stage of this study, I re-analyze the categories I identified and examine the relationships I posited in my research model (Grodal et al., 2020). I found that some of the factors I identified in Study 1 suggest an increase or decrease the likelihood of registering a venture and joining the formal economy, but some were not considered, or varied depending on venture type. To better understand these nuances, I revisited my data looking for possible moderators and accounting for outliers that might be skewing my results (Charmaz, 2006). In Chapter 5, I introduce propositions based on my survey results from Study 2, along with insights from the interviews I conducted in Study 1, before addressing limitations and suggesting future lines of research.

#### *5.1 Propositions*

*5.1.1 Legitimacy.* As we have seen, subsistence entrepreneurs in this sample were operating outside the formal economy and, without exception, were unregistered. They strongly disagreed with both items in my survey, indicating that their customers did not see them as more legitimate if they registered with either the local or national government. For instance, respondent #13 is a man who sharpens machetes, the most common agricultural implement in both Ghana and the Ivory Coast, on market day. The legitimacy of his venture is entirely dependent on delivering a satisfactory service, which his customers are able to judge immediately as they observe his work. Respondent #50 is a woman who sells hard-boiled eggs at the bus station. Her legitimacy comes from replicating other hard-boiled egg sellers. All hard-boiled egg sellers in this market offer the same product, with salt and red pepper included as a free add-on, and they all charge the same price, including the option to

bundle three eggs for a slight price reduction. These micro-ventures generate a few dollars a day and are quite rare in developed economies where social safety nets are more prevalent.

*Proposition 1.a. Subsistence entrepreneurs do not gain legitimacy from business registration.*

Temporary entrepreneurs in my sample also strongly disagreed with both legitimacy items in my survey, even those respondents who were locally or nationally registered. While some of these ventures gained legitimacy in the same way as subsistence entrepreneurs – through replicating existing business models – many of these ventures were independent contractors for large multi-national companies and, thus, gained legitimacy through affiliation. For instance, respondent #116 is earning money to pay for university with a small venture completing mobile money transactions on a commission basis for MTN Group Limited, a South African multinational telecommunications company. MTN requires that independent contractors be registered at the national level, but his legitimacy with costumers is a product of being affiliated with the MTN, not of being registered. He stated that he gained nothing from registration himself, but it could be argued that MTN gains its legitimacy through ensuring that all independent contractors are properly registered. If true, he would be gaining legitimacy through business registration but might not perceive the relationship.

*Proposition 1.b. Temporary entrepreneurs do not gain legitimacy from business registration.*

Most self-employed entrepreneurs echo subsistence and temporary entrepreneurs in strongly disagreeing with both legitimacy items. However, at this level we begin to see entrepreneurs who interact with either the government or multi-national corporations in a

way that confers legitimacy on their ventures. For instance, respondent #8 and respondent #99 both own pharmacies, and customers expect to see government registration documents posted as evidence of the legitimacy of their status as licensed pharmacists. Respondent #49 has a fabrication shop and accepts government contracts. In order to be paid, he must present government officials with an invoice that includes his venture's national registration number. Respondent #136 is a mason, and government registration is necessary for him if he wishes to pull construction permits. Being able to pull permits gives his venture legitimacy in comparison to masons who can only do minor projects or repair work. While these examples may be misleading in that business registration itself does not seem to confer legitimacy, it is clear that business registration is directly responsible for giving access to the source of legitimacy for these ventures.

*Proposition 1.c. Self-employed entrepreneurs do not gain legitimacy from business registration, with the exception of ventures whose stakeholders include the government or multi-national corporations.*

Of the twenty-six entrepreneurs in my sample who I categorize as commercial entrepreneurs, only one, respondent #75, is unregistered. He is a cashew buyer with ten agents in the various locations, that buy cashew directly from farmers, which he then sells in larger lots at a marked-up price. It is a seasonal business that he runs from his home, and legitimacy comes from having cash and offering a competitive price. He strongly disagreed with both items linking business registration to legitimacy. It appears that the commercial entrepreneurs in the sample that are only locally registered are somewhat less inclined to disagree strongly with the premise that they gain legitimacy through registration. However, a closer look at the data reveals that there are only four locally registered entrepreneurs in my

sample that I categorize as commercial entrepreneurs, and one respondent is significantly skewing the data. Three of these four strongly disagreed with my items (e.g. respondent #28 owns a large car wash and his customers have no concern with whether the venture is formally registered), but respondent #78 runs a private school that parents expect to be in good standing with the local authorities. The majority of the commercial entrepreneurs in my sample do business with the government or multi-national corporations, as is the case with respondent #5 who has a stationary store and respondent #148 who deals in appliances, or require business registration to give them legitimacy in interacting with government officials, as is the case with respondent #11 who runs a trucking company and respondent #22 who imports and exports goods through Tema, Ghana's largest port.

*Proposition 1.d. Commercial entrepreneurs gain legitimacy from business registration, with the exception of ventures whose stakeholders do not include the government or multi-national corporations.*

All four aspirational entrepreneurs in this sample are registered, two at the local level and two at the local and national level. Somewhat surprisingly, the two ventures that are only registered locally reported gaining more legitimacy from registration than the two who are also registered nationally. In addition to small sample size, several factors help to explain this finding. First, respondent #9 – who earns enough money with her in-home nursing venture to allow her to give her services for free to the poor – is only registered locally, but it is important to her customers that she have registration papers to show that she is a real nurse. Second, respondent #103 – who founded an incubator space to support young entrepreneurs – is only registered locally, but he thinks registering nationally is important for his venture's legitimacy and plans to do so as soon as he raises the necessary funds. And finally, asking

aspirational entrepreneurs how their customers view business registration can be confusing given that they may consider people they are serving as a customer, or they may consider donors as customers. Respondent #101 has a fashion boutique, but she uses the proceeds to support a program to promote women in engineering. Customers of the fashion boutique are not concerned with her registration status, nor are the high school students in her engineering program. But donors who support the engineering program see national registration as evidence of legitimacy. This trend holds for the entire sample, where increased legitimacy only came from came from institutional stakeholders such as multinational corporations, government agencies, and aid organizations. No one in my sample reported gaining legitimacy with individual customers through business registration, because the citizenry does not view the government as a valid source of legitimacy.

*5.1.2 Complexity.* Subsistence, temporary, and self-employed entrepreneurs gave similar responses regarding the complexity of business registration. On average, they reported being undecided, although a closer look at the data suggests that they tended to agree that the price was too high while disagreeing that the distance they had to travel was too far. An exception was temporary entrepreneurs who had registered their businesses at the national level, which in this sample were exclusively individuals selling phone credit or completing mobile money transfers on commission (respondents #3, #25, #35, #43, #54, #59, #116, #134 and # 144). They were more inclined to report frustration with the complexity of the registration process. This was not surprising given that they had to pay more and travel to either the regional capital in Ivory Coast or the national capital in Ghana, but their ventures were only temporary means to save money for university or get by until they found a better job.

The unregistered commercial entrepreneur, and the nationally registered commercial entrepreneurs in my sample were similarly undecided about the complexity of the registration process, but those who were only registered locally found that the registration process was not overly complex. They reported the price for locally registering their commercial ventures as quite reasonable, and they did not have to travel at all to complete the process, given that government officials could register them at their place of business.

Aspirational entrepreneur in my sample did view the complexity of the registration process negatively, although for those who were only registered locally, this effect was slight. In speaking with these entrepreneurs, I found that the cost of registration, and the time required to complete the process, were viewed as distractions from their primary focus on achieving the social gains with which they were concerned.

*Proposition 2. Type of entrepreneur will moderate the generally negative relationship between filing complexity and registration showing a U-shaped relationship with temporary and aspirational entrepreneurs negatively effected on the ends, and self-employed and commercial entrepreneurs relatively unaffected in the middle.*

*5.1.3 Citizenship.* The subsistence entrepreneurs in my sample were consistent in disagreeing with the citizenship items in my survey. They tended to reply less negatively to the item asking about the importance of business registration for the nation, in comparison to the item on whether registering their business was the right thing to do, which received nearly unanimous disagreement (respondent #2 was undecided). In other words, they felt that that business registration might be good for the nation, but registering their ventures was not imperative. Respondent #67, a woman who earns approximately two dollars per day selling pure water sachets at the bus station, summed up the category's response in saying "My

business is not big enough for them (the government) to care about.” This was consistent with interview data from Study One, where government officials reported that they did not attempt to register ventures that were too small to have a permanent location, as was the case for respondent #67 who sold her pure water sachets from a large container that she carried on her head as she moved through the station.

The two temporary entrepreneurs in my sample who are unregistered echoed the subsistence entrepreneurs in disagreeing with the premise that they should register their ventures because it is the right thing to do. Respondent #23 has a business clearing farmland (with a machete) while looking for a job, and respondent #31 has a business providing house cleaning until her daughter is old enough to start school and she can get a job. Neither felt that their ventures were significant enough to warrant registration. They also disagreed with the item “Registering businesses is important for the development of the nation”. The owners of registered ventures in this category do not feel strongly about the relationship between business registration and citizenship. Five of the remaining fourteen temporary entrepreneurs in my sample responded positively to my items linking business registration with citizenship. Respondent #58, who has a restaurant and bar, is a college graduate, and the other four temporary entrepreneurs who responded positively were saving money for college, which might support the idea that education and registration are correlated, but the small sample size prevents me from drawing conclusions.

The self-employed entrepreneurs in my sample were similarly split, although those who had registered nationally were somewhat more inclined to agree that business registration was the right thing to do, for themselves, but especially for the development of the nation. One of the limitations of this study is that it captures post hoc responses, so it is

not surprising to find that entrepreneurs who have already registered nationally are more inclined to link it with good citizenship. Nevertheless, the average response among self-employed entrepreneurs in my sample was very close to undecided and variance around that response did not fall to the level of disagreeing or rise to the level of agreeing, so further study would be necessary before offering a proposition for this category.

Although the lone unregistered commercial entrepreneur in my sample – respondent #75, the aforementioned cashew buyer – disagreed with both items, the balance of commercial entrepreneurs in my sample trended towards agreement. The disparity between item responses disappears entirely, as these entrepreneurs do not differentiate between what they should do, and what other ventures should do, to develop the nation. Respondent #111, a hotel owner from the Bono ethnic group, said “It’s just important to do things the right way if you want to grow”. This sentiment was common among the commercial entrepreneurs in my sample, and signals both the desire to do the right thing and the necessity of adhering more strictly to the rules as a venture expands.

The aspirational entrepreneurs in my sample strongly agreed that business registration was a sign of good citizenship. In this category, respondents were more likely to view business registration as a way of exhibiting leadership in the community. Respondent #103, the founder of an incubator space for young entrepreneurs, said “We can’t wait for a perfect government. Businesspeople should be leaders and show others how to behave.” This focus among aspirational entrepreneurs is consistent with their desire to affect social change.

*Proposition 3. Type of entrepreneur will moderate the relationship between citizenship and registration such that it is viewed more positively moving from temporary to aspiration entrepreneur.*

*5.1.4 Transparency.* After completing Study 1, I combined two education categories and a transparency category, to arrive at the transparency factor I used in Study 2. After collecting the survey data in Study 2, I found that this combination was likely inappropriate. Responses to my first item, which stated “The government provides enough information to decide whether to register my business”, were consistently low across the sample, averaging a 1.6 response on my Likert scale with Strongly Disagree coded as 1 and Strongly Agree coded as 5, and never ranging above 1.8 for any category. Despite interview data from Study 1, where government officials claimed that they frequently offer well-publicized information sessions, the entrepreneurs in Study 2 do not feel that the government informs them about business registration. My interviews with government officials also revealed that these sessions were poorly attended: certainly, the entrepreneurs I spoke with throughout both studies had inconsistent and often contradictory explanations of business registration requirements, costs, and processes.

*Proposition 4. Lack of information about business registration negatively effects business registration outcomes across entrepreneurship types.*

The second item in my survey, “The government uses taxes and fees I pay to fund public works.” received very different responses across categories. The subsistence entrepreneurs in my sample disagreed with this item. There are two likely explanations for their negative response. First, subsistence entrepreneurs and their ventures are less likely to benefit from public works. Second, when subsistence entrepreneurs are interacting with government officials, they are almost certainly paying bribes given that they have no formal status in the economy. Thus, subsistence entrepreneurs rarely experience a link between business registration and public works.

*Proposition 5.a. Subsistence entrepreneurs do not feel that there is a link between paying taxes and fees and receiving public works, which serves as a strong justification for remaining unregistered.*

For item two, no clear preference emerged for the temporary and self-employed entrepreneurs in my sample. There was some variance in responses but the average response for both groups was undecided. The commercial and aspirational entrepreneurs were more inclined to agree with the second item. Perhaps they benefit further from existing public works or have more confidence in a more formal tax and registration fee collection process. Further research in this area would be necessary to understand the variance in tax morale across entrepreneur types.

*Proposition 5.b. Commercial and aspirational entrepreneurs feel that there is a link between paying taxes and fees and receiving public works, but this does not strongly influence their registration decision.*

*5.1.5 Visibility.* After interviewing government officials at the local and national levels, it became clear that local tax collectors are very well informed about the business activities in their territories since they collect taxes by visiting the location of each business. Even ventures that do not have a permanent location are taxed when everyone is in town on market day. This reality was evident when I collected survey data for Study 2: respondents across all categories disagreed that the size or location of their businesses made them visible to government officials, forcing them to register. The size, type of structure, and location of a venture could affect the size of an entrepreneur's tax payment, and some respondents deliberately kept their ventures small to avoid paying additional taxes, but this was a strategic choice, not a product of visibility, or lack thereof. One possible limitation to this finding is

that ventures which are not visible to government officials are also likely to have escaped my sample selection process.

*5.1.6 Return.* The response from subsistence entrepreneurs to both survey items on return was predictably negative, given that in my sample they were all unregistered. Certainly, we would not expect the owner of an unregistered venture to report a positive return on business registration. As we have seen with the other five factors in the study, subsistence entrepreneurs do not report any benefit or sense of obligation associated with business registration, so any cost would immediately render negative the return for these ventures.

*Proposition 6.a. Subsistence entrepreneurs do not benefit from business registration.*

There are only two unregistered temporary entrepreneurs in my sample and one of them – respondent #23 whom I have discussed above – strongly agreed with the item stating, “Registering my business is beneficial to me” and strongly disagreed with the item stating, “The costs of registering my business outweigh the benefits”, one of the reverse-coded items from my survey. This perplexing response led to an average response for temporary unregistered entrepreneurs at undecided, which was consistent with nationally registered entrepreneurs in this sample and somewhat more positive than locally registered entrepreneurs. Further research would be necessary to determine if there is a trend here.

For self-employed and commercial entrepreneurs in my sample, there is not a positive return on business registration unless the venture has government or multi-national stakeholders. In this regard, return is similar to the legitimacy factor. For the ventures in my sample that are contractors for, or sell to, the government or multi-national companies, the

small cost of registration is well worth the return, but for all other ventures, there is effectively no benefit to registration.

*Proposition 6.b. Self-employed and commercial entrepreneurs do not benefit from business registration, with the exception of ventures whose stakeholders include the government or multi-national corporations.*

This trend reversed for the aspirational entrepreneurs in my sample, with the owners of the locally registered ventures reporting that they benefitted from business registration and the nationally registered ventures reporting that they did not benefit from business registration. We can speculate that the higher cost of national registration, in conjunction with neither of the nationally registered aspirational entrepreneurs working with governmental or multi-national stakeholders, might explain the negative return for nationally registered entrepreneurs. As with my legitimacy factor, this trend holds for the entire sample, where positive return on business registration was only reported by owners of ventures that require registration to have legitimacy with key stakeholders. In other words, legitimacy-as-property – in this case, the capacity of an entity to do business because it is registered – led to financial return. But legitimacy-as-perception – in this case, increased sales as a productive of gaining legitimacy with individual customers through business registration – was not reported by any of the entrepreneurs in my sample.

*Proposition 7. Business registration does not increase income by signaling legitimacy to individual customers, because most citizens do not view the government as a valid source of legitimacy.*

## *5.2 Limitations and Future Research*

A study of this nature, using a grounded theory approach with mixed method analysis, is rife with limitations, and likely to raise more research questions than it answers. My hope in using this approach was, first, to avoid drawing conclusions about answers to my research question – How does a nascent entrepreneur, in a developing context, make the decision to either formally register their business or join the informal economy? – without first asking the entrepreneurs themselves. Thus, Study 1 employed a qualitative, semi-structured interview process, meant to (1) allow respondents to give their perspective, without introducing preconceived biases about how entrepreneurs made the business registration decision and (2) to overcome limitations in available data in a developing economy context. Study 2 used a quantitative, survey design to evaluate the efficacy of the model developed in Study 1. Both studies, but especially Study 1, are at a high risk of both social desirability bias and recall bias. Despite including samples across countries and across cultures, the generalizability of my findings are limited. Finally, the size of the sample in Study 2 was much too small to properly evaluate the relationships described in my Study 1 model.

Whether as a western researcher studying in an African context, a citizen of a developed nation in a developing nation, or simply as an American in Ghana or Ivory Coast, I am a foreigner and a stranger. This dynamic creates both a reluctance to share fully, and a desire to project favorably. As a result, any responses I received are likely biased towards legality and social desirability. I tried to mitigate these biases by completing my interviews and surveys in the presence of a well-known community member, who vouched for my credibility and explained that I was collecting data anonymously and for research purposes. Nevertheless, my data is likely skewed towards higher levels of compliance with local and

national regulations. I would also expect my respondents to assume that I am in favor of business registration and skew their responses accordingly. Collecting a second sample, with a Ghanaian or Ivorian giving the interview questions without my presence, might help to account for this bias. On the other hand, my status as a foreigner seemed to reassure respondents that I was not a government official in disguise, allowing them to answer more freely. Future research could combine different interviewers and different interview techniques to attempt to account for these biases. Conjoint analysis using hypothetical situations is also a common strategy for addressing response bias when research questions are legally or morally sensitive.

Grounded theory analysis offers no statistical solution for the problem of determining appropriate sample size. Instead, researchers must add additional respondents until theoretical saturation is reached (Charmaz, 2006). In Study 1, I felt that I had reached this level with the entrepreneurs I was interviewing, such that additional interviews were no longer providing additional insights. Adding a theoretical sample that included government officials allowed me to fill some of the holes in my theoretical framework, and it would have been valuable to have a larger sample of these respondents. Unfortunately, it was not easy to convince government officials to participate in my study. Future research could focus on this area, perhaps gaining approval from higher level officials before approaching local government agents.

The complexity of my model in Study 1 would require quite a large sample size to appropriately evaluate. At minimum, it would be ideal to have multiple ventures in every category, representing each registration type, from each of my three sample populations. The nature of subsistence entrepreneurship would likely preclude any registered ventures from

appearing in this category, and the same could likely be said for unregistered aspirational entrepreneurs but having more than four aspirational entrepreneurs in the study would have greatly improved my ability to evaluate their decision process. Unfortunately, the total number of aspirational entrepreneurs that we would expect to find in any population of entrepreneurs in a developing nation is quite small. Interviewing 150 entrepreneurs in this context took tremendous time and energy, but a larger team with greater financial resources could increase the sample size in future studies, and greater emphasis could be placed on identifying and including aspirational entrepreneurs.

While my study design included two countries with different colonial backgrounds, and two ethnic groups with distinctive origin stories, it would still be difficult to argue that my results can be generalized to entrepreneurs outside Ghana and Ivory Coast or perhaps Sub-Saharan Africa. While colonial administrative structures persist today (even the official languages of Ghana and Ivory Coast remain English and French respectively), these structures looked very different across Africa and have evolved and adapted in the intervening decades since independence swept the continent in the late 50s and into the 60s and 70s. Cultural norms often predate these governance structures by centuries. Ghana and Ivory Coast each host roughly eighty distinct languages. Controlling for variance across country and culture in the region is effectively impossible, and further complicated if we wish to extend the study's findings to other developing nations. Future studies in other regions of Ghana and Ivory Coast, pan-African studies, and studies in developing nations outside Africa, would be necessary before we could say that these findings apply outside this studies research context.

Finally, this study asked entrepreneurs to consider the time when they made their registration decision, which may have been at the founding of the venture, sometime during the life of the venture, or even in the present for unregistered or locally registered ventures. The average age of the ventures in my sample is five years, seven months, with the oldest venture being twenty-five years old, so some of these decisions were made quite a long time ago. This exposes my results to systematic error resulting from inaccurate or incompletely recollection of past events called recall bias. Recall bias can be especially pernicious when paired with social desirability bias, since respondents may not remember how an event happened and may desire to give a response they think the researcher wants to hear. This would be particularly concerning with my citizenship items, since being a good citizen is generally viewed as inherently good. Future research could limit the sample to nascent entrepreneurs who are either actively considering the registration question, or who have recently made their registration decision.

### *5.3 Conclusion*

To begin this study, I asked the question, “How does a nascent entrepreneur, in a developing context, make the decision to either formally register their business or join the informal economy?” This question has been asked before, but previous answers have largely stemmed from macroeconomic research that is not well-suited to capturing important variance resulting from factors like legitimacy and citizenship. The complexity of the decision to register a venture, in conjunction with limited access to information and education, suggests that individual actors in these contexts are unlikely to consistently make optimal economic decisions. The potential benefits from entrepreneurship and innovation in developing economies is enormous (Audretsch & Thurik, 2000; Robson, Haugh & Obeng,

2009) but difficult to harness when ventures remain hidden in the informal economy. The grounded theory I developed using semi-structured interviews in Study 1, evaluated using an in-person survey design in Study 2, helps us to better understand how nascent entrepreneurs in developing contexts make this pivotal decision. I found that the factors that determine business registration vary significantly based on the type of the venture.

Based on previous literature, I expected legitimacy to be an important consideration for the entrepreneurs in my sample, but this only proved to be true for very specific ventures: independent contractors for large multi-national companies, suppliers of products and services to government buyers (who require receipts that include a federal tax number), and aspirational entrepreneurs in need of legitimacy with potential donors. None of the entrepreneurs in my sample reported gaining legitimacy with their customers as a result of registering their venture, with the possible exception of professionals such as pharmacists and nurses (although it was unclear whether business registration or professional licensing was the true source of legitimacy in these cases). The entrepreneurs in my sample did not think their customers viewed the government as a source of legitimacy so, by extension, being registered with the government was not a source of legitimacy.

As I have discussed, both Ghanaian and Ivorian governments have placed special emphasis on reducing the complexity of the business registration process, and this was evident in my data. The temporary entrepreneurs in my sample who, as independent contractors for large multinational companies, were required to register their ventures nationally, were frustrated by the cost and inconvenience of the process given that they were only trying to save money to pay for university or earn income while searching for a job. The aspirational entrepreneurs in my sample were similarly frustrated, given their focus on

helping individuals in their communities rather than on profit. Neither Ghana nor Ivory Coast have special entity types for non-profit or social ventures. However, the majority of respondents did not view the registration process as overly complex.

It was not surprising to find that the owners of unregistered ventures in my sample did not connect business registration with good citizenship. Many of these respondents are individuals who have benefited little from the government's activities. They are also individuals that we would expect to be focused on physiological, safety and belongingness needs, so their sense of citizenship would be closely tied to their communities and the role they play in the community. Among owners of registered ventures, on the other hand, there was a very consistent upward trend in the data, with temporary entrepreneurs undecided, self-employed entrepreneurs moving toward agreement, commercial entrepreneurs agreeing, and aspiration entrepreneurs strongly agreeing that business registration was evidence of good citizenship. This strong trend could be among the most promising for future research.

Perhaps the most actionable finding from this study, from a policy perspective, is the perception across my sample that the government does little to provide education about registration requirements and the registration process. This was readily evident in the divergent explanations I received from respondents regarding everything from time and cost requirements, to reporting obligations, to compliance expectations. Government officials assured me that this information is available, but there is clearly a disconnect between the provision of information and the receiving of information. This was true to a lesser extent with the link between payment of fees and taxes and provision of public works. The subsistence entrepreneurs in my sample did not feel that there is a link at all, and for these unregistered ventures, there probably is no link. Given their informal status, money they pay

to government officials is unlikely to be recorded and used to fund public works. The temporary and self-employed entrepreneurs in my sample were undecided, and these two categories would likely benefit from greater transparency about how public funds are being utilized. The commercial and aspirational entrepreneurs in my sample are more likely to be engaged in a structured tax and fee collection process, where corruption is less evident, and they are more likely to benefit from any subsequent public works improvements.

The respondents in my sample did not feel that the visibility of their venture, due to size or location, made it necessary to register their venture. This was consistent with interviews data from both local and national tax collectors, who reported that ventures that were not registered were simply too small to warrant “opening a file”. Setting aside the very real possibility that venture which are invisible to the government are very likely invisible to me, the respondents in my study did not claim that they were able to avoid paying taxes as a result of being unregistered. One respondent reported that being in a temporary structure on the outskirts of town resulted in infrequent visits by the tax collector, but she did not avoid paying taxes altogether, nor was she asked to register the venture. In other words, business registration and tax collection did not seem to be correlated in my sample since even unregistered businesses were asked to pay. However, we can speculate that the taxes collected from unregistered ventures would be much less likely to be recorded, since there would be no evidence that it was missing. While registering subsistence entrepreneurs may not lead to significant increases in total tax revenue, it may be worthwhile for policymakers in developing economies to register these ventures as a means of fighting corruption. Alternatively, creating a threshold below which registration is not required, and educating

subsistence entrepreneurs on their right to avoid registration and taxation, could serve the same purpose.

Given that all of the subsistence entrepreneurs in my sample are unregistered, it was predictable that they unanimously reported no expectation of positive return from business registration. This was consistent with their other responses throughout the survey indicating no gain in legitimacy or positive feelings associated with good citizenship. Put simply, subsistence entrepreneurs have nothing to gain from business registration, so any expense immediately creates a negative return in their eyes. Free registration could be attractive if it freed them to pushback against corrupt government officials, but further research would be necessary to evaluate the efficacy of this option. For the remainder of my sample, the return on business registration was very much contingent on whether it allowed for partnership with a multinational company or sales of products and services to government entities. Previous literature suggested that business registration might facilitate access to commercial loans, and the government officials I spoke with also cited this as a potential benefit. However, with interest rates in excess of 35% per annum, none of the entrepreneurs in my sample reported this as beneficial.

The growing realization that informal entrepreneurship may be the “missing piece in the entrepreneurship jigsaw puzzle” (Welter et al., 2017; Welter, Smallbone & Pobol, 2015) has elevated the importance of understanding the business registration decision. Recent studies on informal entrepreneurship have illustrated the size and potential of the informal economy and the developmental potential of informal ventures as steppingstones to more substantial businesses (e.g., de Castro, Khavul, & Bruton, 2014; Webb et al., 2009; Williams & Horodnic, 2015). By analyzing the business registration decision in a developing context,

this study has identified important factors that affect nascent entrepreneurs and offered a theoretical framework to explain how different types of entrepreneurs weigh these factors as they consider joining the formal economy.

## APPENDIX A

### STUDY 1 INTERVIEW SCRIPTS

#### *Phase 1: Pilot Study Script*

##### **Initial Open-Ended Questions**

What factors did you consider when you chose to register (or not register) your business?

Looking back, how do you feel about this decision?

If you could go back and change your decision, would you?

If so, why?

##### **Guided Questions**

Were time requirements a factor in choosing whether to register your business?

If so, how long do you estimate it would take to register your business?

Was cost a factor in choosing whether to register your business?

If so, how much do you estimate it would cost to register your business?

Was paying taxes a factor in choosing whether to register your business?

If so, what is the tax rate for small businesses in Ghana/Cote D'Ivoire?

(if registered) How much do you pay in taxes?

What is your business annual revenue?

(If above or below the country rate) Why do you pay more/less?

How are tax payments determined?

Was dealing with a corrupt official a factor in choosing whether to register your business?

If so, what was your concern?

Have you had to deal with corrupt official in the past?

What are the benefits of registering your business?

Could you borrow money more easily if your business is registered?

Do you pay less in bribes to corrupt officials if your business is registered?

Are customers more likely to come to your business if it is registered?

Is it easier to grow your business if it is registered?

### **Scenario Development**

I would like to develop scenarios where Ghanaian entrepreneurs are choosing whether or not to register their business. Can you think of any industries where the decision is often split evenly between registering and not registering?

What factor do you think other people consider most important when choosing whether to register a business?

Are there factors that other people consider that you don't consider?

### **Ending Questions**

Do you mind if I get some basic info about you?

Age?

Education?

Previous entrepreneurship experience?

### *Phase Two: Field Interview Script (Entrepreneurs)*

#### **Introductory Questions**

What kind of business do you own?

How long have you had the business?

Do you have any partners in the business?

Have you registered your business with the government?

If yes, local or national or regulatory?

Is it common for businesses in your industry to register with the government?

Does the government enforce registering businesses in your industry?

### **Initial Open-Ended Questions**

What factors did you consider when you chose to register (or not register) your business?

Do you think it's wrong to (register/not register) a venture?

Are their benefits to be registered?

Looking back, how do you feel about this decision?

If you could go back and change your decision, would you?

If so, why?

### **Guided Questions**

How long does it take to register a business? Cost? Does cost vary? Where do you go?

Are banks helping people to register their businesses?

What are the differences between the local, national, and regulatory registration processes?

What is the punishment for not registering at the local, national, and regulatory levels?

Can people get away with not registering?

If so, how? Or under what conditions?

How are public works funded?

Do you have to pay taxes?

Is there a benefit to being registered, when the tax collector visits? Negotiation?

How do you see your tax payments being used?

Do you think people understand that taxes fund public works?

If they understand, how confident are people that the money will be used for public works?

What percentage of the taxes you pay, are actually used for that purpose?

Is there any program to explain to people how their taxes will be used?

*Phase Three: Field Interview Script (Government Officials)*

**Introductory Questions**

What department do you work for?

How long have you been in this department?

What services does your department provide to entrepreneurs?

Have you helped register new businesses?

Is it common for businesses to register with the government?

Does the government enforce registering businesses?

**Initial Open-Ended Questions**

How does your department market its services to entrepreneurs?

What factors do entrepreneurs consider when they choose to register (or not register) their business (or whichever service is provided by the department)?

**Guided Questions**

How long do you estimate it would take to register a business (or access the resource provided)?

How much does it cost to register a business (or the resource provided)?

What are the benefits of registering your business?

    Could you borrow money more easily if a business is registered?

    Are customers more likely to come to a business if it is registered?

    Is it easier to grow a business if it is registered?

Do entrepreneurs worry about corruption when they decide to interact with government departments?

APPENDIX B

STUDY 2 SURVEY SCRIPT

*Survey Script*

**Basic Information**

Age (years) \_\_\_\_\_

Gender (M/F): \_\_\_\_\_

Education level

- High school passed (Y/N)? \_\_\_\_\_
- Technical school attended (years) \_\_\_\_\_
- University attended (years) \_\_\_\_\_

Type of business:

\_\_\_\_\_

What was your motivation for starting this business? Please explain:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Is your business Unregistered \_\_\_\_\_ Registered Locally \_\_\_\_\_ Registered Nationally \_\_\_\_\_

How many years have you had this business? \_\_\_\_\_

How many people do you employ or have working for you? \_\_\_\_\_

What is your estimated monthly business profit? \_\_\_\_\_

- Is it (more / less / same) when compared to a year ago? More Less Same
- Do you think you will be \_\_\_\_\_ at this time next year? Larger Smaller Same

Have you started another business in the past before the current one (Y/N): \_\_\_\_\_

Have you been employed in the past (Y/N)?

Do you hope to be employed in the future (Y/N)?

*Legitimacy*

My customers care about my business being registered with the local government.

Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

My customers care about my business being registered with the national government.

Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

*Complexity*

The cost of registering my business was/is too high.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

The distance I had/have to travel to register my business was/is too far.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

*Citizenship*

I feel that registering my business is the right thing to do.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

Registering businesses is important for the development of the nation.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

*Transparency*

The government provides enough information to decide whether to register my business.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

The government uses taxes and fees I pay to fund public works.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

*Visibility*

The size of my business makes it necessary to register.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

The location of my business made it necessary to register.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

*Return*

Registering my business is beneficial to me.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

The costs of registering my business outweigh the benefits.  
Strongly Disagree    Disagree    Undecided    Agree    Strongly Agree

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## VITA

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