

# From the informal economy to the meaning of informality

## Developing theory on firms and their workers

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### Abstract

**Purpose** – The purpose of this paper is to assess ways in which informality can be understood and reviews an emerging area of management scholarship. The origins and nature of informality are discussed with the aid of two different theoretical tools: “workplace sociology” (WS) and “mixed embeddedness” (ME).

**Design/methodology/approach** – The analysis is grounded in empirical material reflecting different aspects of informality mainly within the ethnic economy, such as a study on the implementation of the National Minimum Wage regulations (Ram *et al.*, 2007; Jones *et al.*, 2004, 2006).

**Findings** – The authors argue that the combination of WS and ME provides a valuable means of content and character of informality. It can also help to explaining variations and patterns within the informal economy, as well as understanding new forms of informality in the ethnic economy and beyond in “superdiverse” contexts.

**Originality/value** – This paper bridges two different theoretical approaches to explain the interactions between the firm and state regulations, as well as the workplace relations between employer and employees.

**Keywords** Mixed embeddedness, Social theory, Firm, Informal, Workers, Ethnic economy, Formal, Workplace sociology

**Paper type** Research paper

### Introduction

Mainstream entrepreneurship and management scholarship has traditionally had little to say about the topic of the informal economy. That fact inspired the conference theme of the 2012 Academy of Management Annual Conference, two pieces in the Academy’s Perspectives journal (Bruton *et al.*, 2012; McGahan, 2012); and there are also other recent overviews (Godfrey, 2011). Entrepreneurship scholars are following suit (De Castro *et al.*, 2014; Webb *et al.*, 2013). These contributions underline the extent of the “informal economy” and the need to understand it better. Among other things, the informal and the formal intersect, with large “formal” firms depending on supply chains in which various “informal” practices can operate undetected.

We need to understand the origin, nature and extent of “the informal” in modern economies, not least because of the potential for sometimes ill-informed controversy. Unless carefully placed in its proper context, economic informality can easily be equated with



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criminality and rendered rather over-dramatically as a “shadow economy” (Schneider, 1997), a ghostly bogeyman lurking just around the corner. This is all the more reason for further development of these themes, drawing upon various sources hitherto seen as peripheral to the discourse. Notable here are important works by earlier US scholars who have provided a great deal of basic definitional work in the field (Castells and Portes, 1989; Sassen, 1991; Waldinger, 1993). Additional strength might be derived also from a fast emerging European school (Edwards and Ram, 2006; Ram *et al.*, 2001; Williams, 2006, 2014), a potential source of theoretical interpretation and empirical findings capable of enriching the insights from management theory highlighted by McGahan (2012).

Building on this, our purpose in this paper is to lay out some ways in which informality can be understood while also offering a synthesis of knowledge in an emerging area of management scholarship. We explain and apply two long-established theoretical approaches: “mixed embeddedness” (ME) and “workplace sociology” (WS). We argue that bridging these two influential theoretical tools will enhance the way informality has been analysed so far, and fill some of the aforementioned gaps. ME has had a powerful influence on studies of immigrant entrepreneurship (Rath, 2000) and it has been developed and integrated into more general frameworks that explain behaviour in small firms in a variety of contexts (Edwards and Ram, 2006). It encompasses three levels of analysis: the micro characteristics of firms themselves; the opportunity structure in which they find themselves; and the ways in which this structure is itself socially embedded (Kloosterman *et al.*, 1999; Kloosterman, 2010). It offers a way of understanding the interplay of the firm and its environment. Hence, ME helps to understand informality as a result of the intersection between the regulatory framework, the market and the firms. Informality is explained as the product of exclusion from all but the lowest yielding markets, which tends to marginalise the smallest firms, creating a need for cost-cutting, which is often achieved by means of informal practices. However, ME does not account for the dynamics within the firms at the micro-level that create and sustain informal practices. It is silent on the institutional, social and individual relations between owners, workers and other relevant actors that might produce informal practices.

We argue that WS is helpful in explaining the mechanisms that (re)produce informality. WS has for many years discovered and analysed informality in the employment relationship. Lupton (1963), for example, explored “fiddles” in an engineering workshop. The most extensive treatment came from Mars (1982), who addressed ways in which workers secured illicit rewards. Despite the fact that WS theory has been embedded in the study of work relations since the 1970s, it is rarely used in the study of informality. The perspective addresses the meaning of conflict and co-operation; it applies even in “informal” activities even though these lack many of the formal structures, notably trade unions, usually associated with ideas of conflict and contestation (Thompson and Smith, 2009). A core insight of WS is the complex, widespread and heterogeneous nature of informal economic activity; and its intimate connection with the “formal” economy. This immediately renders problematic approaches to the informal economy that portray an informal firm as an entity that is wholly informal.

The paper synthesizes and builds on evidence published in core management journals (Edwards and Ram, 2006), organisational behaviour (Edwards *et al.*, 2006), and work and employment (Ram *et al.*, 2007). The studies documented in these sources take the form of intensive case studies and incorporated the neglected voice of workers as well as business owners.

It is organised in two major sections: the Origins of informality and the Nature of informality. We highlight how WS and ME have helped to explain different aspects of informality in small firms illustrative empirical material analysed using these two theoretical approaches. These examples analyse different aspects of informality mainly within the ethnic economy in the UK (Ram *et al.*, 2007; Jones *et al.*, 2004, 2006). Given the

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overall marginalisation of these firms from the mainstream economy, immigrant enterprises prove a suitable case to look at the suitability of WS and ME to explain informality within small firms. However, this sample material does not preclude the extrapolation of these theories to understand processes of informality within small firms in the mainstream economy. We include a final section where we outline future directions of research.

### Origins of informality

Bruton *et al.* (2012, p. 1) define informal firms as those that are unregistered but derive income from producing legal goods and services. Here it is important to note that the notion of economic informality covers the whole range of business transactions carried out on a non-contractual basis. These include such practices as recruiting workers via the community “grapevine” rather than employment agencies or carrying out what Williams and Windebank (1998) call “paid favours” for friends and family. Significantly these are absolutely non-transgressive in nature, without a hint of law violation. While we employ a variety of descriptive labels in the present paper – “informality”, “informal firms”, “informal practices”, etc. – these are purely rhetorical devices and we regret there is as yet no recognised terminology to distinguish transgressive from non-transgressive. Until the requisite neologism is invented, Bruton *et al.*'s (2012) offers a valid starting point in harmony with the prevailing view in social science, as expressed by Williams and Windebank (1998, p. 4), who describe informal employment as “the paid production of goods and services that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes”. Broadly echoed also by Grabiner (2000), Leonard (1998) and Williams (2004), this formulation explicitly distinguishes informal work from both formal activities on the one hand and criminality on the other. Closely bearing on the kind of research we ourselves have done on informal work (Ram *et al.*, 2007), Williams and Windebank (1998, p. 4) proceed to expressly draw attention to non-registration as a means of “avoidance of labour legislation, such as employers’ insurance contributions, minimum wage agreements or certain safety and other standards in the workplace”.

The origins of informality were addressed powerfully by the marginalisation thesis, originally put forward over two decades ago by Castells and Portes (1989), which sees informal work as an inherent feature of advanced capitalism, attempting to explain this by reference to the chronic disequilibrium of the market, which forces many micro-firms to sell their product or service at below the “correct” price. Since they can only achieve this through severe cost-cutting, they are obliged to cut all manner of regulatory corners.

All this is given a valuable historical context by Williams (2014), who examines the development of thought in this field from the early twentieth century to the present. Most pertinently he reminds us that before the 1980s the prevailing view was that economic informality was an obsolete and vanishing form, mostly confined to pre-modern regions of the world. Insofar as it continued in the modern economically developed world it could be dismissed as a residual “gradually disappearing from view as the modern formal sector became totalising and hegemonic” (Williams, 2014, p. 1). Yet, from the 1980s onwards the realisation began to dawn that this rather casual assumption was empirically flawed, that even in the most advanced economies the population of firms operating at least partially on an informal basis was not diminishing. In response to this emerged the political-economic perspective led by Castells and Portes (1989), maintaining that far from existing falteringly as obsolescent residuals, informal economic activities are a congenital feature of advanced capitalism. Indeed, under the pressures faced by small entrepreneurs and workers in face of the “outsourcing, downsizing and subcontracting practices that have appeared under deregulated global capitalism” (Williams, 2014, p. 2), the conditions for informal activity have intensified. As Sassen (1996) has argued, much informal activity takes the form of self-employment as last resort survival for marginalised workers, who use their firms trading activities to evade all manner of regulatory costs (Slavnic, 2010; Ram *et al.*, 2007).

From the start of the present century, this marginalisation thesis has almost inevitably come under challenge from the newly hegemonic neo-liberalism (Harvey, 2005), what Chang (2014, p. 70) regards as “the dominant economic view since the 1980s”. The neo-liberal interpretation stands the marginalisation thesis on its head, placing the entire necessity for evading regulations on the state itself (Becker, 2004; De Soto, 2001) rather than on the market’s creation of a disadvantaged sub-class of self-employed strugglers. Summarising this neo-liberal thesis, Williams (2014, p. 7) puts it thus, “workers [...] in regimes where there is too much state interference in the workings of the market, high taxes and corrupt public sectors are making the rational economic decision to voluntarily exit the formal economy”. Tellingly this author has himself conducted exhaustive international tests on all the key neo-liberal hypotheses, coming to the conclusion that there is little or no empirical support for any of them (Williams, 2014). Yet even though it may be over-harsh to dismiss the evidence-free neo-liberal case as ideologically driven, we can hardly fail to note its reliance on faith rather than concrete proof. Whatever the truth of this, it is still the case that the controversy surrounding informal motivations remains alive, as we shall see later when revisiting our own work on UK government enforcement of regulations (Ram *et al.*, 2007).

Further hampering any search for neat black and white interpretations is the realisation that informality is not a linear one-dimensional affair but one that it is better seen as multi-factorial process. Accordingly, we ourselves adopt the “cocktail of factors” thesis developed by Williams (2004). Not only do a wide range of economic, social and geographical processes come together to nudge some individuals towards unorthodox working practices but the complex multiple causation also tends to create a broad spectrum of activities. Indeed these range from fairly hard-line regulatory evasion at one extreme to what he calls “informal social entrepreneurship” (Williams, 2004), the undertaking of paid favours for friends and neighbours.

According to this approach, a distinct “informal” or “underground” economy is a rather tiny fraction of the great range of actually existing informal activities. Indeed, Williams and Windebank’s (1998) rejection of the term “informal economy” in favour of “informal employment” expressly makes the point that formal and informal firms are not separate species. Much more common than the pure formal or informal firm is the dual identity firm and any temptation to search for binary distinctions must be resisted, when reality tends to resemble a continuum, further complicated by all manner of overlaps. In practice, informal operators may well adopt formal procedures in certain circumstances, while the converse is often true. Attempting to bring some sort of order to this highly variegated realm, Williams (2014, p. 3) maintains that at a broad level, there are three categories of interest in this field: (1) informal firms operating informal practices (2) informal firms operating some formal practices, and (3) formal firms operating some informal practices. Only Category 1 fulfils the conventionally accepted criteria for the “pure” informal firm and in practice it is comparatively rare, outnumbered in most places by Category 3.

Though this dichotomous framing of the formal vs the informal economy has still not been entirely abandoned in management and entrepreneurship studies, it is refreshing to note a dawning awareness of the limitations of binary formulations (Bruton *et al.*, 2012; Webb *et al.*, 2013). In line with Williams (2014), Webb *et al.* (2013, p. 611) note that “entrepreneurs can be fully compliant with certain legal definitions (i.e. labor regulations) while in conflict with others (i.e. trademark laws)”. Future studies, they argue, could examine “how entrepreneurs are both formal and informal and why, from a strategic standpoint, an entrepreneur would choose to be compliant with certain prescriptions while intentionally conflicting with others” (Webb *et al.*, 2013, p. 611). These ideas featured in an inner city restaurant in Birmingham, UK, that we investigated in research on informal work (studied by Ram *et al.*, 2007, with subsequent further contact). It was registered for tax and other purposes and had an up-market position. Yet it employed many of its workers “off the books” and evaded some regulations, notably the National Minimum Wage (NMW). In doing so, it was not simply

“exploiting” its workers. Rather, it was negotiating their consent, which embraces some autonomy in the labour process and leisure when the restaurant was not busy. It was thus formal and informal, it was embedded in the economy in particular ways, it had a distinct way of managing the labour process, and it illustrates a type of informality.

In explaining the extent of informal activities, ME is of value in spelling out the origin of informality as the interplay between firms’ own resources and the opportunity structure in which firms operate. This orientation can usefully address important questions that Bruton *et al.* (2012, p. 9) maintain are neglected: are “some individuals [...] excluded from formal opportunities due to cultural/societal biases [...] and pushed into informality?” “If so, does this business type form an opportunity for these individuals, or does it create its own barriers that limit the individuals from progressing?”, and “what are the motivations that cause a firm to transition from informal to formal”. We have, for example, studied the informality associated with firms’ evasion of the UK NMW and also the employment of workers in the country illegally (Ram *et al.*, 2007; Jones *et al.*, 2004, 2006) using ME. The main processes leading to these results were two. First, firms were under product market pressure to contain costs in the two sectors studied. Restaurateurs made repeated reference to the clustering of rival firms, commenting on the “cut-throat” nature of the competition and “trying to outdo one another”. And for nearly all employers in clothing, survival rested upon price-cutting, sourcing cheap imports, and a retreat from manufacturing. Second, the labour market continues to supply workers willing to work for extremely low wages. The reluctance of workers to challenge non-compliant employers has to be seen in the context of the paternalistic bargain prevailing in such firms; this bargain had its roots in familial and community links. This work also shows that the informal labour process varies quite markedly from one sector of economic activity to another, with workers in customer-facing jobs like restaurant waiting enjoying considerably more autonomy in personal time management than their more regulated counterparts in clothing factories. By linking ME with WS together, we capture not only the origin of informality but also its reproduction and sustainability.

Irrespective of sector, however, a key finding of that research is that, though this harmonious equilibrium is paradoxically unstable, it is constantly being remade, as for example with the use of new groups of workers to plug recruitment gaps resulting from growing dissatisfaction with wages and conditions. In the case of South Asian employers it is worth noting the acute contradiction between the need to recruit fresh labour from the homeland and the UK immigration laws which make this a legal impossibility in most cases. Hence the pressure to use irregular immigrants is intensified, a highly precarious “solution” very much regretted by many owners themselves. As explained by one of the respondents in our own survey of irregular immigrants, “If I could get workers who are legal, I’d prefer to. We need a new system whereby we can get workers from Bangladesh legally, because the legal workers no longer move into the restaurant business” (Jones *et al.*, 2007, p. 413). Even though we need to guard against false protestations, nevertheless this quite typical statement strongly suggests that entrepreneurs who otherwise would prefer the psychological security of a law-abiding existence do not conduct regulatory evasion in an atmosphere of impunity but rather as a last resort imperative. Another respondent who laments, “I only employ illegals because you can’t get anyone else, casts further light on this. These days the youngsters want official jobs or they’re just into drugs and criminal activities” (Jones *et al.*, 2007, p. 413). Such are the strains of the immigrant to British-born inter-generational shift. These examples illustrate the use of ME as a valid tool to capture the origin of informality through the interplay of the regulatory framework (i.e. immigration regulations in the UK) and the practices and mechanisms of the sector where the small firm is embedded.

Whatever the moral qualms of the participants interviewed for the study on NMW, these irregularities are reinforced by the absence of an effective external deterrence from the state.

Often the latter is torn between the need to impose its own authority and the need to conserve the socially valuable jobs created in impoverished neighbourhoods by informal employers (Freeman and Ogelman, 2000; Jones *et al.*, 2007). ME also accounts for how the state structures the spaces and practices in the market for firms to operate. In this particular case, the state could be seen as a direct facilitator of informal economic activity. In effect, the more the state regulates, the more regulations there are to evade and each new regulation inevitably acts to criminalise those who simply carry on as before. In this sense the modern state is the virtual creator of the informal sector through its constant redefinition of what is non-permissible in the market place. Even so any political reluctance to crack down on informal evaders seems almost justified in the light of historical experiences like the 1990s Dutch attempt to enforce regulations on the Turkish-owned clothing industry of Amsterdam, whose only achievement was to bring about the near-total extinction of that industry (Raes *et al.*, 2002).

Harking back to our earlier account of Williams (2014), we are reminded that all this is highly politicised, with far-reaching implications for the role of the state and its relations with the market. Consequently this line of argumentation needs to be carefully measured and contextualised. For example, Castells and Portes (1989, p. 27) state that, "Avoiding over-burdensome tax regulation provides an incentive for tax evasion, welfare benefit abuse and a multitude of other activities aimed at earning invisible income". Taken without qualification, such a statement suggests extreme bias, aligning itself with neo-liberals like Lea (1996) for whom any kind of state regulation is an offence against rational free market economic behaviour, creating a vicious circle in which informality reduces the state's tax revenues thereby leading to higher taxes and still more evasion. Yet a more balanced interpretation might be that, culpable though avoidance may be, its root cause is a macro-economy so skewed in favour of large corporations that many small enterprises are too marginalised to be able to earn an "honest" living (Jones *et al.*, 2006). Judgementalism is hardly appropriate to such moral ambiguity, with value judgements about informal work appearing even more slippery than attempts to define it.

On transitions between the formal and informal, ME also helps us to account for the impact of regulations in the sectors, that push firms in both directions. On the one hand, firms can be pushed towards informality when squeezed by external pressures such as the UK NMW in the context of very strong market competition. Alternatively, the NMW can encourage formalization when it goes along with the opening of market niches that allow the production of higher-value added products. Once again, the very nuanced interaction between state policy and entrepreneurial practice is at the heart of this question, as became very evident to us during our investigation of 17 clothing and restaurant firms not complying with the NMW (Ram *et al.*, 2007). From this exercise our key finding was that, in carrying on much as they had prior to this legislation, informal employers remained all but immune to the NMW, evading it by under-declaring the number of hours worked. Particularly in the restaurant trade, employers insisted that hourly rates were completely inappropriate to working times, which varied wildly according to fluctuations in customer numbers. Accordingly most of them echoed the respondent who dismissed the NMW as "having no influence at all. It's just another level of bureaucracy we have to deal with".

A small minority of firms in this study (Ram *et al.*, 2007) did make the transition from informal to fully compliant businesses. Three factors were particularly important in effecting this transition. First, market context was crucial. The firms were intent on growing their businesses; their customer and supplier base comprised larger firms that often exercised some influence of the internal operations of the case study companies; and the formal and contractual basis of customer relations meant that there was limited scope for non-compliance. Second, compliance was also a product of managerial choice. Non-compliance was incompatible with the owners' desire to grow the business, encourage

commitment and innovation amongst staff, and secure high value customers. Finally, a noticeable feature of the compliers was their active involvement in a variety of business networks. These owners: made extensive use of their local business advisory services, secured business-related grants from the local council, and were business owners were members of local employer associations.

These illustrations of the impact of NMW regulations demonstrate the value of ME in explaining the origin and informality. Linked with WS, it can also account for the process to more formal arrangements. The state and its diverse regulatory framework (i.e. immigration policy, NMW, enforcement of controls) explain the origin and perpetuation of informality.

### **Nature of informality**

Whilst ME sheds light onto the origins of informality, WS helps us understand the negotiation of informal work relations. This is to say that ME accounts for the origin of the informal practices, but it does not have explanatory capacity to unveil the mechanisms behind informality. At the micro-level we ought to understand how entrepreneurs and workers comply, semi-comply or contest informality. Some scholars have speculated that the “whip of the market” (Burawoy, 1985) leads to autocracy in the labour process. Research finds, however, that work relations are often characterised by tacit negotiation and a degree of give and take. Reasons include: the absence of a Taylorized production process, which means that work is less rationalised and regulated than in some more formal contexts; close personal relations between manager and worker, which make harsh autocracy hard to sustain; and familial and kinship ties that cut across the wage labour relation.

Distinctive adjustment processes within small firms shape the way in which regulations are perceived and mediated. For example, “informality” – in the sense of management-worker relations based informally on unwritten arrangements and tacit understandings (Edwards *et al.*, 2003, p. 20) – can mean that issues relating to pay and working practices are handled without resort to formal administrative procedures. In such a context, firms can be expected to behave in two main ways: to avoid formal procedures in such areas as discipline and dismissal, and more generally to rely on face-to-face understandings with employees. Crucially, such understandings eliminate any explicit statements of rights and duties, with the further implication that legal obligations will be ignored if they do not relate to the established set of informal norms. There were many instances of these informal norms in Ram *et al.*'s (2001) study of restaurants, with the complex case history of one worker in particular, Baldev, incorporating almost every facet of the paternalistic informal working relationship. Having relinquished self-employment through ill-health, he found himself with nothing to do and so took up a waiter's job with a restaurateur acquaintance. Typical of many curry house workers, he is prepared to rationalise paltry earnings – £3 per hour with no account taken of volatile working hours depending on how busy it is – in terms of the quid pro quo of intangible benefits. Particularly valued is the absence of rigid work discipline, so that “if I arrive late, the boss doesn't say anything”. He also enjoys the sociability of the working environment and clearly feels that the boss has done him a favour by liberating him from enforced idleness. Part of this quid pro quo is that he would not consider asserting his legal rights and, though aware of the NMW, commented, “I do not get that [...] I work here because I like it [...] If I stayed at home, I would not know what to do”.

Baldev's case also makes the point that the condition of low-paid ethnic minority employees has to be seen, not simply as an isolated workplace phenomenon, but also in an entire context of informal social networks. Such networks are crucial in facilitating access to work and providing a linguistically and culturally familiar environment in the workplace itself. The type of management approach experienced by Baldev was suggestive of the paternalist arrangements widely noted in small businesses in general (Ram, 1994; Wray, 1996), and specifically in ethnic minority firms (Bailey, 1987; Herman, 1979). The flexibility and apparent mutuality implied by

such work arrangements is suggestive of a certain “ethnic solidarity” (Zhou, 1992). However, the material substance of informal and personalised work relations should also be noted. For instance, close relationships between owners and workers tend to foster collusion and feelings of mutual inter-dependence between the two parties. When under these circumstances workers themselves are voluntarily relinquishing their own legal entitlements, it is easier to get away with breaches in tax and pay legislation (Bailey, 1987; Herman, 1979).

It is equally important to note that, though informal networks may facilitate employment opportunities, allowing people to draw on and exploit personal relationships and networks of existing informal workers, they can also limit the choices available (Leonard, 1998, pp. 139-140). Work in such circumstances can be riddled with internal inequalities and abuses. This in turn often curbs the capacity of informal workers to experience these sources of employment as liberating as they not only are indebted to their employer but also to the friendship and other networks which facilitated their employment (Leonard, 1998, p. 139). The full force of this sense of entrapment was evident from the experiences of a homeworker, interviewed in a recent study of the NMW and small firms. It is worth quoting her experiences at some length (see Box 1).

### Box 1. A sewing machinist's work

#### *Background [...]*

Badie is a “homeworker” sewing machinist with some ten years’ experience. She has been working for SweatCo for around two years; she has three young children. Although she works exclusively for SweatCo, she is not recognised as an employee, “I’m just working for him [...] I’ve got no cards, no pension, no holidays [...] I’ve got nothing like that”.

#### *A Typical Working Day [...]*

“I get up at 7 am and get the kids ready, make sure they’re washed and ready; then I make their breakfast. I then make my husband’s breakfast and make his sandwiches for work. Then I have my own breakfast. I get to sit at the machine at 10 am, and I sew ‘till 12 pm’. I make my youngest girl lunch, feed her, and then take her to the nursery for 12.40 pm. I get back at 1.10 pm and sew till 3.15 pm. I then make the children’s tea. I have my own lunch at that time with them; I don’t bother having it earlier, because it takes up too much of my time. I am back at the machine at 4.30 pm, and I sew ‘till 7.30 pm non-stop’. After 7.30 pm, I have to feed the kids and put them to bed; and then I have to prepare food for the evening. After I put the kids to bed, I prepare my husband’s dinner for when he gets back home after the pub, which is usually 10.30 pm. On Saturdays and Sundays, I do two or three hours if the factory needs the work”.

However these hours of work were not constant. Typical of the clothing industry the flow of work is seasonal and erratic, “When he [owner] needs the work, I sew ‘till much later’, up to 10 pm or 11 pm. On three times last year, I sewed right through the night. If I didn’t do it, he’d give the work to someone else”.

#### *Pay [...]*

For the style of garment that she is currently sewing, Badie receives £2.25 per item. She regards this as a “good” rate, and compares favourably with the factory owner whom she previously sewed for “He [current owner] pays me well [...] The one before paid me 32 pence for a garment that took me half an hour to make [...] It was really hard work”.

Badie was aware of the NMW, although she was not sure of the rate. However, she claimed “I have to take whatever he gives me”.

“I sew because of the kids. I don’t like sewing, it’s horrible. You have to work too hard. The work is constantly on your mind. Even when you’re not sewing, you’re thinking ‘I should be sewing’; you’re worrying if you’ve made enough money. For some [other machinists] it’s OK. I don’t claim income support, others do. My cousin [who works for the same firm] claims incapacity benefit, but she still sews and makes £30-35 per day. It’s OK for people like that because they got money coming in from the side”.

Source: Unpublished extract from Edwards *et al.* (2003)



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### *Future directions*

As we explain below, there is much scope for theoretical development building upon the ideas already discussed. We suggest some key areas for advancement of informality at conceptual, empirical and methodological levels.

*Explaining variations and patterns.* Explaining variation and nuance in the informal economy is a key concern for Bruton *et al.* (2012), McGahan (2012) and Webb *et al.* (2013). Taking up this important point, we can cite Mars (1982) and Edwards (1988) to identify two broad influences. The first, echoing Kloosterman (2010), is the opportunity structure: the degree of space available to workers to ignore or bend the rules. Tightly constrained work processes such as lean production assembly lines and call centres limit this space. Much of the “informal economy”, by contrast is not so rigidly Taylorised, and hence there is the kind of space that we discussed above. The second set of influences cover workers’ needs to engage in illicit practices, and these needs in turn are of two types. The first is the extent to which formal rules make it hard for workers to do their jobs effectively. A classic example is a health and safety rule that cuts across the need for production. Here, workers are bending the rules to do, in effect, what managers want them to do, while also bearing the risk if things go wrong. The second situation occurs where workers feel that the balance of effort and reward is unreasonable, and hence they act to correct it by reducing effort or securing illicit rewards.

We argue that models are beginning to emerge that begin to address this question. The Edwards *et al.* (2006) model provides a framework that incorporates a range of different contexts in which small firms are embedded; it also incorporates agency dimensions and the negotiated nature of social relations in even the most “informal” of firms. For example, it addresses firms’ labour market strategies. Those that recruit openly in the general labour market are the most likely to be more formalized in their dealings with workers. Those that recruit in a more closed way, through ethnic communities for example, are more prone to personalised and informal relations. This dimension interacts with others such as the firm’s strategic direction. Firms seeking growth and linkage with mainstream markets will be the most likely to formalize. The idea here is not to typologize firms. Typologies act as a useful benchmark. Paternalism, embracing a mutual sense of obligation between employer and employee, is one benchmark. Another is the sweatshop, based on harsh discipline and hire-and-fire. But many firms combine elements of these features. And the features do not derive in any simple way from external conditions: harsh product markets can be associated with negotiated paternalism. The point is to identify dimensions in which firms vary, so that individual firms can be characterised without reducing them to types. It is also possible to look at the dynamics here, charting how informality rises and falls over time as a firm negotiates its economic and social position.

*Understanding new forms of informality in the ethnic economy and beyond.* Prior to this, however, there is considerable need to update our empirical application of existing theory in the light of the rapidly changing entrepreneurial population emerging from the new “super-diversity” (Vertovec, 2007). In the UK, the nub of this issue is the so-called “new migrant” population, comprised of EU economic migrants from post-Soviet Eastern Europe together with asylum seekers/refugees from Africa and South West Asia. Though research on these groups is as yet in its infancy, a number of quite striking findings have already emerged, the most surprising being that, in respect of what they do and how they do it, new migrant entrepreneurs seem to be taking on the mantle of their early post-war predecessors. In the light of Judt’s (2010) historical verdict on the fall of the Iron Curtain, “After 1989, nothing [...] will ever be the same”, the fact that everything about migrant entrepreneurs IS the same demands its own explanation. Up to this point, the continuing segregation of new migrants in the lowest value markets (Sepulveda *et al.*, 2011) has been explained in terms of ME, with Jones *et al.* (2014) arguing that not even the re-drawing of the political map of Europe has altered political-economic fundamentals appertaining to migrant entrepreneurs.

Not surprisingly, the struggle for survival in under-rewarded labour-intensive sectors ensures that new migrants are just as much dependent on in formal cost-cutting practices as their predecessors. Indeed this dependency seems greatest for those who entered the UK as near-destitute asylum seekers and consequently compelled to start-up businesses in almost unimaginably straitened circumstances. As Sepulveda *et al.* (2006) explain, this kind of under-resourced self-employment is often the sole earning opportunity open to asylum seekers. Consequently informal practices are virtually indispensable in propping up such precarious ventures, with the Somali community in particular notable for several distinctive methods of providing both start-up and working subsidies. In the matter of start-up, we have encountered several Somali owners whose firms were informally funded through membership of rotating credit associations; and day to day working is frequently carried on by “helpers”, unwaged family members or co-ethnics who often see these jobs as a kind of unofficial entrepreneurial entrepreneurship (Jones *et al.*, 2014; Ram *et al.*, 2008).

However, we think that some of the findings emerging from the analysis of informal practices within immigrant entrepreneurship presented in this paper can be used to explain informality in the mainstream economy. Informality is not unique to the “ethnic” economy and some of the underlying causes and mechanisms might be shared with non-migrant firms. Advancing this line of research outside the ethnic economy would be mutually beneficial for the advancement of both the field of informality and of immigrant entrepreneurship. The latter would moderate the “ethnic exceptionalism” argument of informality as a distinguishing aspect of the ethnic economy.

*Expanding methodologies to look at informality.* Though stemming from qualitative enquiry, these ideas readily inform quantitative research. It is possible to identify key dimensions of firms such as the extent and influence of family control and their recruitment and other labour management practices. Degrees of formality on each dimension can then be measured. Various theories can then be tested, such as that labour practices are influenced but not determined by a firm’s product market circumstances and that the degree of embeddedness in networks increases informality on most dimensions.

Qualitative inquiry could track firms longitudinally, assessing how and why they shift between the formal and the informal.

### **Conclusions**

In this paper, we have shown that many of the misgivings about economic informality expressed by management and entrepreneurship scholars are perhaps overstated to some degree. As suggested earlier it may well be that this stems from a failure to give full weight to the contribution of European scholars like Colin Williams whose output in this field can only be described as voluminous (Williams, 2004, 2006, 2013, 2014). Following from his insights, we have shown how powerful theoretical developments can explain different aspects of informality through the analysis of empirical data: ME enables us to understand the origin of informality as the result of the intersection between the regulatory framework, the market and the firms; while WS proves an appropriate approach to understand the mechanisms that reproduce, contests or semi-complies with informality within the firm.

At this point we should caution that, for all their widespread applicability, the principles outlined here fall short of complete universality and should be taken as for the most part applying to micro-firms in the developed world. In the light of the case studies discussed in this paper, it may be tempting to think of informality as restricted to migrant-origin firms but this is strongly contested by such studies as Jones *et al.* demonstrating native white British firms to be rather more informal than their South Asian counterparts. Ultimately we may regard work in this field as achieving a valuably broad coverage and it is somewhat regrettable that international scholarship has yet to achieve a similar unified scope. It is difficult to miss the irony of an unprecedentedly

inter-connected world, yet one in which two sets of researchers in the same field can be sealed off from one another by the Atlantic Ocean, a mutual isolation which can only act to undermine our attempts to get to the truth about economic informality. In the true spirit of international research, we would like to believe that the proposals outlined above for future progress in this field will be carried out co-operatively, relegating the ocean to its proper status as a mere geographic divide.

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#### **Further reading**

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