

# Exploring Business Formalization Processes

## With a Gender Perspective

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### Abstract

This study sought to explore and explain the role that gender plays in business formalization processes. It adopted a Straussian grounded theory approach with female and male participants that are business operators, selected through theoretical sampling from education, furniture, food vending, personal services and trade sectors in Dar-es-Salaam and Coast regions of Tanzania.

Findings suggest that the key driver of the motivation, decision and process of formalizing a business is an operator's perceived meaning and worth or "conceptualization" of formalization. This conceptualization phenomenon is in turn informed by the operator's awareness of role, perceived benefits and procedures for formalizing a business. For individuals with unfavorable personal contexts, such as most females, their motivation, decisions and process of formalization are also influenced by more powerful significant others' (such as spouses) conceptualization of formalization. This is because the latter inspire, exert pressure on or must sanction the former's decisions. This finding challenges the widely held resource based perspective which explains firm outcomes in terms of resources owned or controlled by the business operator.

Business informality had previously been explained extrinsically from the economic, social, fiscal and regulatory perspectives. This study identifies strong intrinsic barriers in the form of negative conceptualization of the process. Specifically, the study adds a gender perspective to explaining business informality. It suggests that a combination of low capacities, socialization processes and relationships between the more and the less powerful in low income societies, such as Tanzania, engenders "volitional business informality" especially among the less powerful, such as most females.

Consequently business formalization initiatives need to take a holistic approach, simultaneously addressing awareness and capacity, regulatory and gender (relations) issues. It is also crucial to foster positive conceptualization of formalization among powerful members of society such as most men, even if they are not operating informally, as they influence the weaker, such as most females in developing economies.

Key words: gender, small business, business informality, conceptualization of formalization, volitional, developing country, female entrepreneurs.

### Introduction

Female entrepreneurs are over-represented in the informal economy in developing countries. Research shows that a higher percentage of individuals that are working in the

informal economy relative to the formal economy is poor, especially if it comprises of females and average incomes of both females and males are lower in the informal economy compared to the formal one. (Chen, 2001; Chen and Heintz, 2006). Business informality is a concern for a number of reasons, including denying enterprise access to formal markets and critical support, as well as limiting the tax base. Virtually all (98 %) of businesses in Tanzania are extra-legal (URT, 2008). An evolutionary informal economy in developing countries including Tanzania could provide a means to deal with this challenge if entrepreneurs could meet conditions for accumulating business resources generating surplus and growth as well as formalizing their business enterprises (Nelson, 2003).

### **Research Problem and Objectives**

Knowledge of drivers and processes of formalization is crucial for informing policy. Unfortunately, such knowledge is undeveloped to a great extent. Previous research had also established that, gender affects strategic choices and performance of female entrepreneurs and prevents them from participating in high economic growth activities (Hurley, 1999; Rutashobya, 2000; Bruni et al 2004). The main objective of this study was to examine the role that gender plays in business formalization. The specific objectives were: to explore, explain and compare how business formalization occurs in female and male-owned enterprises and to gain insight into how gender explains intrinsic and extrinsic barriers to formalization.

### **Literature Review**

#### **Azjen's Theory of Planned Behavior**

Azjen's theory of planned behavior (1987; 1991) posits that, intentions toward target behavior are a function of perceived attractiveness of the target behavior, perceived social norms and behavioral control which are all influenced by "exogenous" factors that include personality, demographic characteristics, environment and endowment of resources. This theory is partly relevant in explaining inclination to business informality in developing countries context where exogenous influences include; low GDP growth, high population growth rates, high levels of under-employment and un-employment, poverty, absence of formal social- welfare systems, over-regulation and low levels of business resources. In this context inclinations to business informality appear to be attractive targeted behavior as informal operators save formalization costs to meet subsistence needs and other socio-economic needs. Government institutions turn a blind eye to business informality as informal businesses play a crucial role of alleviating poverty, employment and income generation.

#### **The Resources Based View (RBV)**

This theory perceives businesses as bundles of factors of production or resources for deployment to add value to attain sustainable competitive advantage (Hitt et al 2002). According to this theory, tangible and intangible resources, competencies and luck are explanators for firm performance. A recent extension of RBV is Knowledge Based View (KBV) which models firms as knowledge bearing entities that leverage knowledge for

competitive advantage. This theory falls short in ignoring the human factor including human behavior that is capable of influencing business outcomes.

### **The Rational Choice Theory of New Institutional Economics**

According to this theory, all social and economic action including formalization is rationally motivated; as such people calculate likely costs and benefits of any action before deciding what to do. This theory indicates that the application of this theory to socio-economic interaction takes the form of Exchange Theory (Scott, 2000). As such formalization is an exchange transaction between the government and the operator, in the sense that the government offers informal operators rights and protection gained by registering or licensing lawful activities as well as investment in infrastructure that facilitates business success and growth. The informal operators in exchange agree to comply with state regulations and laws for running enterprise, including paying taxes (Nelson, 2003).

### **The Structural Gender Perspective**

This perspective views gender as a multi-level structure, of social practices that involves mutually reinforcing processes at the macro-structural / institutional, interactional and individual levels (Czarniawska 2006; Acker, 2009; Ridgeway, 2009; Risman, 2009; Vespa, 2009). According to this perspective, gender as a primary frame for social relations is at root a micro-interactional approach that owes much to the “doing gender” account.” Doing gender” is conceptualizing gender as a routine accomplishment embedded in every day interaction. Candace and Zimmerman (1987) define “doing gender” as “to engage in behavior at the risk of gender assessment”. “Doing gender” is a useful theory in pointing out that gender is continually created in ongoing social interactions and alerting us to the taken-for-granted expressions of difference that appear as natural but are not, however by referring to “doing gender” as an accomplished state it denotes an accomplishment of gender difference rather than possibility of dismantling such difference. It is necessary to shift from social interactions that reproduce gender difference to social interactions that reduce gender difference or change from “doing gender” to “un-doing gender” (Deustch, 2007).

### **The Gender Identity Perspective**

According to this perspective, there are intuitive gender schemas about the behaviors, traits and preferences of men and women which influence how females and males are perceived in life. These schemas characterize men as assertive, self-sufficient, courageous, confident, rational, logical, and goal or work driven. Women are characterized as nurturing, cooperative, emotional, sympathetic, modest, gentle and relationship-driven (Lorber and Farrell 1991; Foldy, 2006). It is argued that these traits come from two different orientations toward identity and relationships as such females are more likely to find their identity in their web of relationships and seek attachment, while males are more likely to seek independence, with their identity coming largely from their work (Lorber and Farrell 1991; Foldy, 2006).

## **The Gender Role Perspective**

This perspective is based on the assumption that an individual's behavior is influenced significantly by the traditional social roles that are scripted differently for females and males by society. Such roles perpetuate a division of labor that is based on gender, where females are considered to be home-makers, child-care givers and general nurturers while males are provided with the role of bread-winning. These scripted roles influence perception, skills and interests that individuals develop in their childhood and in adult lives. (Lorber and Farrell, 1991; Nchimbi, 2003)

The review of literature suggest that the patriarchal system which establishes males as leaders and decision-makers within families and communities, privileges them in access, use and control over resources, determines the gender division of labor, socializes females and males differently and provides a lesser favorable personal context to females is the underlying cause of differences in processes and barriers of formalization. The following section deals with how this study was undertaken.

## **Research Methodology and Design**

Straussian grounded theory procedures were executed in preliminary and full phases of this study. The preliminary phase involved 30 female entrepreneurs; 18 in formal economy, 10 in the informal economy and 2 in the semi-formal economy and 30 male entrepreneurs; 20 in the formal economy, 8 in the informal economy and 2 in the semi-formal economy. The sectors within which the preliminary study took place included; food, trade, furniture, personal services and education. The traditional food, trade and personal services sectors were chosen because most of female entrepreneurs with un-favorable personal contexts relative to males operate in these sectors. The non-traditional sectors of education and furniture were chosen because some females with fairly good and comparable contexts to males venture in such sectors. The intention was to make theoretical comparison and to gain insight into the similarities and differences in formalization processes for female and male entrepreneurs in such sectors.

The full study involved 5 male and 5 female entrepreneurs in the trade and education sectors with varied personal contexts. The sample involved very well educated and lesser educated female and male entrepreneurs as well as very successful and lesser successful ones. This sample was obtained from the preliminary study. Choice of the sample for the full study was based on the variation of participants' backgrounds and experiences and information richness relating to business informality, formalization and gender from which deep understanding could be facilitated.

For data Collection, plain and in-depth interviews, participant triangulation, document analysis and observation were utilized. In the preliminary phase, 60 plain interviews were carried out. For the full study, 15 in-depth interviews were conducted with 10 respondents in the trade and education sectors. The plain interview duration ranged from 30 to 45 minutes while the in-depth interview duration ranged from one hour to one and a half hours. All in depth interviews were taped and transcribed verbatim. The researcher interviewed Officers from regulatory institutions as well. At the beginning of the study, data sources, some of the

questions and some of the interviewees were purposely determined by the researcher. However, subsequent interviews and choice of respondents were guided by insights from emerging theory through theoretical sampling.

## **Data Analysis and Theory Building**

Data analysis was undertaken in line with Strauss and Corbin's (1990; 1998; 2008) grounded theory procedures that involved open, axial and selective coding. In the following section the eight (8), key categories that emerged from collected data are explained.

### **Key Emergent Categories**

**1. Contextual Factors:** involved the personal, external and societal organizational contexts that explained the initiation, formalization and growth of the female and male owned businesses. This category influenced availability of resources, values, norms and motives for which businesses were found, formalized and grown.

**2. Founding Businesses:** Involved the role of gender in business start-up and formalization processes. Participants were motivated by various factors to initiate businesses, ranging from survival / necessity, to sheer interest in entrepreneurship and need for creating a base for wealth creation. Gender differences in business start-up appeared to be based on access to resources and opportunities including access to education and employment opportunities, characteristics of socio-economic networks in which female and male entrepreneurs operated as well as socio-cultural values including gender.

**3. Conceptualization of Formalization:** was about how respondents understood formalization and perceived its importance in facilitating success and growth of their businesses or not. Depending on awareness and different levels of endowment of resources participants conceptualized business formalization as; an un-necessary burden, a deliberate strategy for business stability growth and success, a forced outcome of harassment and pressure from formalization enforcers and formal customers, a delay to initiate the running of legal businesses, a means for being recognized as an entrepreneur by the government, business services providers and a catalyst for conducting businesses efficiently and effectively.

**4. Enculturation:** involved the role of gender in socialization processes. Female and male entrepreneurs were socialized within families that ascribed different roles and rights for them as well as sensitized them to power relations that ascribe females as subordinates and submissive. Whereas females were socialized to assume responsibilities within households, males were prepared to a greater extent for the public arena including venturing into jobs and businesses. The education system appeared to also socialize them differently for the differentiated responsibilities ascribed to them by society.

**5. Business Formalization Processes:** involved: Participants' conceptualization of formalization, motivation to formalize, formalization planning, sequence of activities in obtaining legal business ownership determining and handling barriers and assessment of outcomes of licensing by participants. Perceived barriers to formalization included the many and time consuming bureaucratic procedures in business formalization, inefficiencies of public officials in handling the processes, un-necessary delays, high tax levels that are

charged arbitrarily, lack of on-line formalization services, corruption, limited financial resources to meet registration and licensing fees and costs participants' ignorance on formalization procedures and negative conceptualization of formalization.

**6. Motivation to Operate Within the Informal – Formal Economy Continuum**

Involved factors that explained female and male entrepreneurs' decisions to either operate entirely in the informal or formal economies or to choose a location that involved an appropriate combination of informal-formal economy characteristics in which their businesses operated. These factors included extent of endowment of business resources and perceived advantages and disadvantages of operating informally and formally.

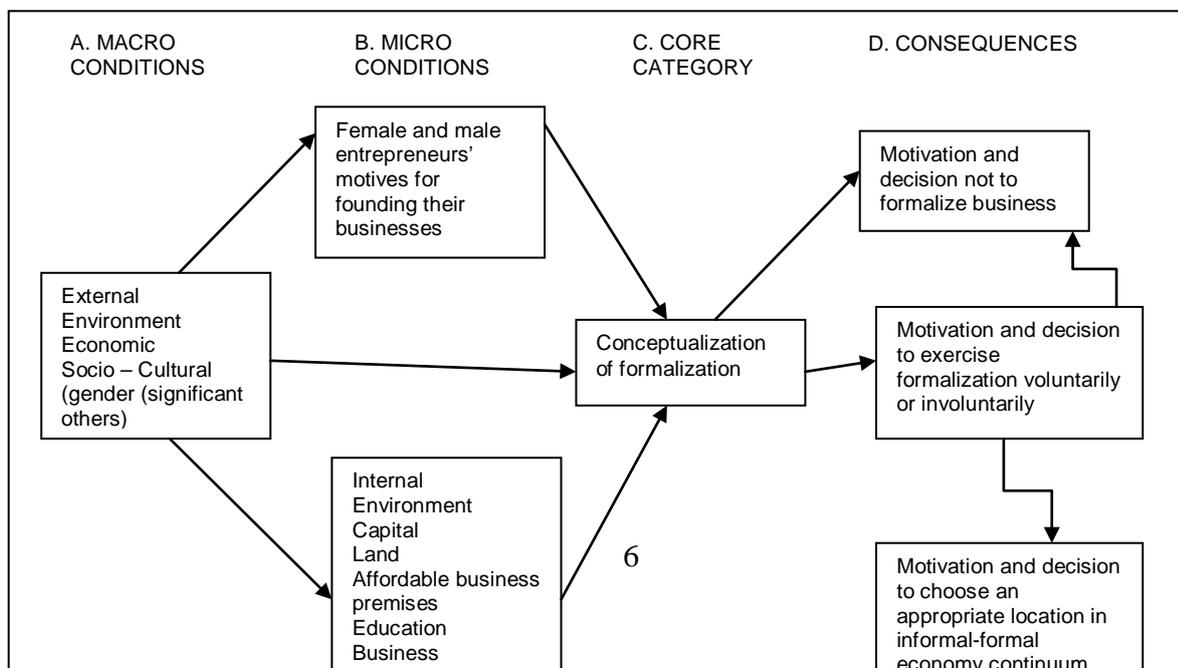
**7. Gender Roles in Founding and Running Businesses:** It was perceived that engagement in businesses is a recent phenomenon for females, as such their possession of critical business resources like capital, crucial business networks, business knowledge, land and suitable business premises is a bigger challenge for them, particularly for the lesser educated and un-employed females. Consequently, the lesser educated and un-employed females were more dependent on their spouses and partners for generating business ideas, deciding about the business options they should take and for providing capital.

**8. Paths to Formalization:** involved stages through which businesses went through from initiation, formalization, to growth. Such paths were found to be determined by conceptualization of formalization, level of endowment of business resources like business networks, knowledge, experience, premises, capital, land and the growth motive.

**The Core Category and Paradigm Model**

Conceptualization of business formalization among entrepreneurs emerged as the central category due to appearing frequently in data and its ability to pull the other key categories to form an explanatory whole. The different meanings and value that entrepreneurs attached to business formalization influenced their motivation and decisions to formalize or to remain operating informally. The Paradigm model below summarizes the emergent substantive grounded theory which proposes that the phenomenon of role of gender in formalization processes involves interplay between “conceptualization of formalization”, entrepreneurs' motives for founding and formalizing their business enterprises, the internal environment of such enterprises and the external environment.

Fig.1 Paradigm Model for Influence of Gender in Business Formalization processes



## **Emergent Theory within Extant Literature**

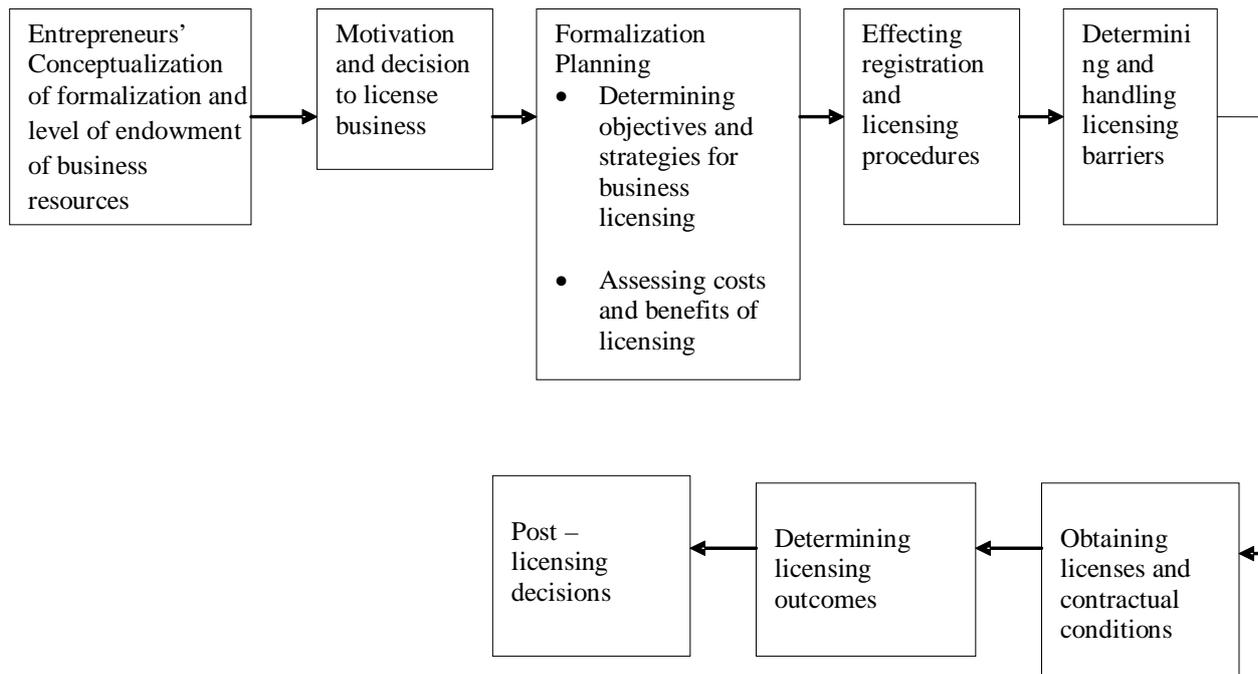
The emergent grounded theory presented in the previous sub-section, implies that motives for founding businesses, “conceptualization of formalization” and subsequent motivation and decisions to formalize or not to formalize businesses are mainly determined exogenously by the performance of the economy, its organization, culture and socialization patterns including gender. This theory partly corroborates Azjen’s theory of planned behaviour previously explained. Findings from this research have indeed indicated that levels of endowment of business resources have a bearing on conceptualization, motivation and decision to formalize or not formalize businesses.

However these findings contradict Azjen’s and RBV theories in terms of establishing that female entrepreneurs’ attitude and intentions to formalize or not to formalize, especially for those with un-favorable personal contexts, are to a great extent mitigated by influences of significant others, particularly their spouses or partners who exert pressure on them and require decisions to be sanctioned by them. This situation appears to be a manifestation of “doing gender” which is an accomplishment of gender difference in motivation to business formalization and business informality, an outcome of social organization within which female entrepreneurs are ascribed as subordinate to significant others particularly to their spouses and partners who call the shots(Candace and Zimmerman, 1987; Foldy, 2006).

### **Findings**

This study has established that businesses follow the following process in their formalization.

Fig.2 Business Formalization Process



The formalization process is triggered by internal and external factors that motivate entrepreneurs to engage in it. Internal factors include conceptualization of formalization as a deliberate strategy for business growth due to understanding it and voluntary desire to engage in it and to grow businesses, as well as possession of sufficient business resources. Given the fact that females have lesser access and control over business resources including education and therefore lesser chance of understanding role of business formalization well, it would be less likely for them to desire to grow their businesses, and to perceive business formalization as a deliberate strategy for business growth. The same is likely to apply to marginalized males that have limited endowment of business resources. It has also been established that females' conceptualization of formalization, particularly those with lesser favorable personal context is influenced by significant others like spouses, that can exert pressure and sanction decisions for them. If such females come across significant others that conceptualize business formalization negatively they lose the chance of getting the motivation and support to formalize their businesses.

Like Nelson's study (2003), this research has determined that external triggers to business formalization include harassment by formalization enforcers and provision of formalization education by business services providers. This study has gone further and established that other external factors include; pressure from big formal customers such as super-markets, big hotels and big formal suppliers that require Tax Identification Numbers (TIN) in business transactions with them and possibility to get government and private tenders. Again females are disadvantaged from benefiting from external triggers because of perception that they are less capable and subordinate while crucial economic links are supposed to be formed with males.

Then follow processes of formalization planning which include determining

objectives, strategies benefits and costs for effecting formalization. Findings indicate that entrepreneurs with lesser favorable context tended to initiate and to formalize businesses to meet subsistence needs while well educated and well to do, tended to do so to grow them for purposes of leaving a legacy or to create wealth. Research findings indicate also that formalization strategies are dependent on levels of endowment of business resources; which include outright registration and licensing of businesses when endowment of resources is high or gradual accumulation of resources in the informal economy followed by formalization after sufficient accumulation of business resources occurs. This implies that female and male entrepreneurs with lesser favourable personal contexts would tend to employ the latter strategy in formalization of their businesses.

Processes of registering and licensing of businesses follow next. While going through them, entrepreneurs also determine and handle requisite barriers. This study establishes intrinsic and extrinsic barriers to business formalization. Intrinsic barriers include ignorance about its role and benefits, negative conceptualization and attitude to it by entrepreneurs and significant others and fear of not being able to engage in it sustainably. Ignorance is a result of being denied access to or having limited access to general education. It is a common practice in patriarchal societies like Tanzania to favor males in provision of opportunities for accessing resources including education, particularly when financial resources are limited (Mascarenhas, 2007). Consequently, females are more disadvantaged in accessing educational resources a factor that translates itself in female owned enterprises being trapped in the informal economy to a greater extent and being constrained to grow successful and sustainable businesses. As far as negative conceptualization and attitude to business formalization is concerned, this study establishes that it is a result of perceiving formalization as an un-necessary burden by the poor for whom priority is meeting basic human requirements. Throughout the world research findings indicate that females constitute a greater percentage of the poor (Chen,2004) this implies a greater percentage of poor female entrepreneurs in Dar-es-salaam and Coast regions in Tanzania would be perceiving formalization as an un-necessary financial burden for them hence a disincentive for them to formalize their businesses to a greater extent.

Extrinsic barriers included; excessive bureaucratic procedures, corruption, limited business resources and high tax assessments. Excessive bureaucratic procedures necessitate entrepreneurs to spend a lot of time moving through different offices to effect them. Females are more pressed for time due to greater responsibility for care of households as such formalization becomes a bigger disincentive for them. Concerning corruption, females are subjected to its monetary and physical forms. As a result of existing traditions, females are not regarded as owners of resources such as land as such they have lesser resources available for initiating, formalizing and growing businesses (Mascarenhas, 2007).

Strategies which male entrepreneurs use to deal with formalization barriers include use of networks, close follow-up and graft. They use networks because institutions that deal with formalization are mainly staffed by males as such it is easier for them to maneuver their way through them. They can exercise close follow-up because they have lesser time pressure. While females resort more to use of graft due to time-pressure and limitations in networking, sweet-talking, seeking support of spouses and partners and in some cases they have divorced

spouses or ended relationship with partners to gain autonomy in decision-making and running of businesses.

### **Discussions and Conclusion**

Research findings indicate that gender explains how formalization occurs for weaker members of society such as most females as well as males with un-favorable context in comparison to the more powerful such as most males due to different levels of access, use and control over resources. Access to resources including knowledge for entrepreneurs and their significant others, fosters awareness of formalization, its role and benefits, and subsequent positive conceptualization and attitude to it and vice versa. Positive conceptualization of formalization triggers motivation and decision to formalize or not to formalize. It has also been established that, different levels of endowment of business resources explain objectives for which female and male entrepreneurs initiate and formalize their businesses, barriers they encounter and, strategies which they use in dealing with barriers. Therefore it is important for policy makers to determine policies that simultaneously address the supply side of formalization in terms of laws, rules, regulations and institutional systems. As well as the demand side of formalization involving gender, capacities and awareness of formalization (what it is, its role, benefits and procedures for effecting it).

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### **Acknowledgement**

Very sincere thanks should go to all participants who generously shared their experiences and facilitated collection of required data.