

Living with Institutions: A Micro-Level Explanation of Informal Economic Activity

Lessons from Formally Registered Service Sector
Businesses in England

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Submitted: November 2021

**A thesis submitted in fulfilment of the University's requirements for
the Degree of Doctor of Philosophy**



Abstract

Informal economic activity (IEA) plays a significant part in the service sector, although it remains relatively underexplored. This thesis applies a qualitative case study approach to explore why a group of small service sector business owners within a developed economic setting adopt informal practices. The theoretical contribution of this research is the development of a micro-level understanding of informal activity within an institutional environment over time. This account complements and builds upon existing understandings of the informal economy using Critical Realist (CR) insights and a generative view of causation. CR has been operationalised in this study through the work of Margret Archer and her morphogenetic framework. This is used as a model to understand how the institutional environment affects practice, and acts as an orientating lens to organise and understand the causal importance different institutional factors have over time.

The findings from this study indicate that IEA is the result of the temporal relationship between institutional factors. The *structural conditioning* of decision making is the result of exposure to *informal employment arrangements* early in the actor's career. Whereas *formal institutional failures* at the *interaction* stage provide the situational circumstances where IEA becomes the most appropriate situational response. The findings also indicate that *institutional carriers* can actively promote IEA through institutional messages which have a significant causal influence on the actor's future practice. This thesis concludes by outlining the implications of the findings from this research for policy and future research agendas.

Acknowledgments

This PhD journey has been a difficult and testing time for me; however, this journey has not been completed alone. Therefore, I would like to thank a few people who made this possible. Firstly, I would like to thank my wife Amy, without your continued support, understanding, belief and patience this research and academic journey would not have been possible. Thank you, sweetheart X!

To my supervisory team, Dr Martin Beckinsale, Dr Dyneshia Johnson and Dr Ed Thompson thank you for your generosity with time, continued advice, feedback and support without which this thesis would have remained unfinished. During this research I have also been lucky enough to discuss my thoughts and findings with Professor Monder Ram who acted as an external expert by providing both me with both subject knowledge and constructive criticism on my thoughts, thank you Monder.

Thank you to my colleagues and friends at De Montfort University who have helped support me over the last four years of study with words of advice, encouragement, and an overwhelming belief in my ability when I doubted it most. Also, thank you to all those who participated in this study and provided me with open and honest discussions about their business activities, understandings and beliefs.

Finally, I would like to dedicate this work to my Mum Christine, and the lasting memory of my dad Doric and brothers Sean and Paul whose life and passing inspired me to make positive changes in my own life and begin this academic journey.

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Abbreviations

CABS – Chartered Association of Business Schools

CAQDAS - Computer Aided Qualitative Data Analysis Software

CR – Critical Realism/Realist

GDP – Gross Domestic Product

HMRC – Her Majesty's Revenue and Customs

IEA - Informal Economic Activity

ILO - International Labour Organization

MIMIC -Multiple Indicators Multiple Causes

NMW - National Minimum Wages

SAC - Structure, Agency and Culture

SME - Small to Medium Enterprises

VAT – Value Added Tax

Chapter 1 - Introduction

1.1 Introduction

This chapter introduces and justifies research on the informal economy and sets out the course this thesis will take. This chapter will provide a background understanding of the extant research on the informal economy and outline the research problem explicitly along with the overall aims and objectives which guide this study. This introduction will also outline key findings and structure of this thesis. This concise but succinct introduction maps the journey, the remaining chapters will then elaborate.

1.2 Background of this study

Informal economic activity (IEA) is a significant contributor to economic life in developed, developing and transitional countries (Darbi et al., 2018), and is here to stay (Chen et al., 2004). Williams and Nadin (2012) assert that the informal economy and the associated activities are “a persistent and ubiquitous feature of the economic landscape” (p. 1). Between the years of 1991 and 2015, Medina and Schneider (2017) maintain that the average size of the informal economy of the one hundred and fifty-eight countries included in their study was 32.5% of the official Gross Domestic Product (GDP). They observed large variations in individual countries figures, for example, the size of the informal economy for a developed setting such as the United Kingdom stands at 13.3% of GDP between 1991 and 2015, whereas Georgia (a developing country) is estimated to be at 64.9% of GDP (Medina and Schneider, 2017). These figures may be even higher if formal enterprises that under-report income were also included (Williams, 2018). Furthermore, around 61.2% of the global workforce is informal, which equates to around 2 billion people (ILO, 2018).

Due to the size, significance and recognition of the global prevalence of IEA, understanding how and why non-compliant economic behaviour is adopted by those involved, is now seen as having great importance (Webb, Tihanyi, Ireland, and Sirmon, 2009). Indeed, supranational agencies and governments now consider tackling economic non-compliance as extremely important for future economic development and growth (Shahid et al., 2020). Furthermore, McGahan (2012) outlines that due to the overall importance of informal activity, many academic studies of the formal economy should be considered as being incomplete without an understanding of IEA. The recognition of the magnitude of IEA has led to increased academic attention (Godfrey, 2011) promoting the development of research agendas which specifically focus on understanding informal activity and its interplay with the formal economy further (Godfrey, 2011; Ketchen et al., 2014; Webb et al., 2013). However, IEA remains insufficiently explained (Webb et al., 2014) considering its estimated size, global significance and the associated issues it raises for national and local governments. Indeed, IEA is often associated with public revenue losses, poor working conditions that are often aligned with informal employment and the unfair competitive advantage informal firms gain by not complying with legal and regulatory standards (Williams et al., 2015).

To understand precisely what this study covers the definition of informal activity provided by Williams (2019) is adopted herein. A full discussion regarding the rationale for this decision is contained within the literature review (Section 2.2.1). However, for the introduction to this study, it will suffice to say that informal activity is considered as:

Socially legitimate paid activity that is legal in all respects other than that it is not declared to, hidden from or unregistered with, the authorities for tax, social

security and/or labour law purposes when it should be declared. (Williams, 2019, p. 6)

Without clarity on what informal activity is and is not informal can often become an umbrella term for everything which is not formal (Ram et al., 2017). This lack of definitional clarity often means the informal economy becomes conflated with the criminal economy (Darbi et al., 2018) which is not helpful. The goods and services supplied by actors participating in this study are all legal in of themselves although under-reported for taxation and welfare payments and in some cases, actors also avoid mandatory rules and regulations concerning labour law. In contrast, the criminal economy covers such activity as drug trafficking where the primary activity is illegal. Within this study, the terms informal economy, informal economic activity (IEA), non-compliant behaviour, deviant behaviour and informal practices are used interchangeably to discuss the same phenomenon as outlined by the adopted definition of informal economic activity.

There are four main theoretical understandings of IEA, namely modernisation, neo-liberal, political economy and institutional approaches (Williams 2019). The first three theoretical approaches (modernisation, neo-liberal and political economy) have led studies of the informal economy to focus on economic and country-level structural determinants of informal activity (Williams, 2013). For instance, modernisation theory posits that informality is more prevalent in less modern and developed settings or economies and will naturally disappear as countries modernise and economically advance (Geertz, 1963; Lewis, 1954). Political economy theory, on the other hand, explains the existence of the informal economy as being most extensive in countries with inadequate government intervention and welfare measures (Castells and Portes, 1989). Alternatively, the neo-liberal view asserts that the informal economy is the

result of over-taxation and too much government intervention in market activities (Becker, 2004; Chen, 2016; Nwabuzor, 2005). However, as Williams and Horodnic (2015a) discuss, these previous approaches fail to explain at both individual and societal levels, why some comply with the formal regulations, and others do not. To bridge this gap in understanding the study of the informal economy has taken an institutional turn, with institutional theory becoming the primary approach for explaining the persistence of IEA (Ram et al., 2019).

The institutional approach when applied to the study of the informal economy begins with the premise that all social and economic activity is underpinned and governed by two interrelated institutions (North, 1991). These comprise of formal institutions which provide the codified rules and laws and informal institutions which include norms, values and beliefs of the actors and societies that remain uncoded. From this institutional lens, informal activity does not abide by the formal rules but remains within the informal, unwritten boundaries set by society and is therefore perceived as legitimate (Godfrey, 2011; Webb et al., 2009). From an institutional lens when formal institutions fail to govern economic behaviour appropriately, the informal economy provides an alternative framework for society to follow (Ireland and Webb, 2015). By adopting an institutional lens, the other competing explanations of informal activity, namely the modernisation, political economy, and neo-liberal approaches can also be considered. For example, through the institutional lens, other theorisations of the informal economy are seen as formal regulatory failures which can manifest as the inadequacy of the government regarding development (modernisation), or the under-regulation (political economy) or over-regulation of the economic market (neo-liberal), alongside the informal institutions, namely the norms, values and cultural beliefs of the country, region or sector under examination.

1.3 Defining the Research Problem

Despite the institutional lens providing a more complete theoretical explanation for the durability of the informal economy (Ram et al., 2019), there remains a lack of micro-level understanding. Indeed, extant study of the informal economy through an institutional lens often fails to provide an adequate explanation of how the institutional environment influences micro-level activity in consideration of agency (Littlewood, Rodgers, et al., 2018). This lack of micro-level understanding is arguably the result of large scale survey methodologies and the reliance on the quantitative analysis of existing data which often seeks to understand the relationship between formal and informal institutions by examining attitudinal responses regarding tax morale (see Horodnic and Williams 2018a). Although tax morale clearly plays an important role in the prevalence of IEA, these quantitative approaches can not fully explain the reasons for low levels of tax morale and institutional asymmetry (Williams and Horodnic 2016). Although other studies of the informal economy have adopted qualitative approaches by considering the experiences and causes of institutional asymmetry (see Littlewood, Rodgers, et al., 2018) there still remains a lack of adequate micro-level explanation as to why some actors adopt informal practices and other do not although they operate in the same institutional environments (Ram et al., 2019).

As a result of the dearth of micro-level explanations of informal activity, the individual characteristics and rationales of the actors involved remain largely unknown due to the focus on structural explanations. Although extant study of the informal economy through the institutional lens highlights the importance of understanding the institutional environment and the causal influence of the various structural factors which impinge upon actors, the institutional environment must also be considered as non-determining. Indeed, actors are not mere "cultural dopes"

(Rerup and Powell, 2017, p. 317) acting within institutional contexts regardless of their knowledge or desires (Archer, 1995; Fleetwood, 2014) therefore a more detailed account of agency is needed.

This lack of micro-level understanding and focus on exploring the structural explanations of informal activity has also meant that the extant study of the informal economy also fails to fully consider the role of other stakeholders in the durability of informal activity. For example, when considering that small businesses in England regularly turn to at least one source of external business advice when in doubt (Bennett and Robson, 1999) it becomes important to understand the relationship between this advice and the continued existence of economic non-compliance. Although existing studies of the informal economy within England look at the positive causal influence of customers in the adoption of non-compliance by considering informal activity from a demand perspective (Rodgers and Yang, 2018; Williams, 2006a) or by highlighting the role of experts such as accountants (Ram et al., 2019) in accommodating continued non-compliance this area remains under explored. This study argues that by understanding who is responsible for carrying messages regarding the acceptability of non-compliance to the individual actors who adopt informal practices would assist in explaining why IEA is initially adopted and secondly why it continues to survive regardless of policy measures. From an institutional lens as adopted in this study, Scott (2014) asserts that understanding how institutional messages are carried helps to explain the longterm "stickiness" (Scott, 2014, p. 97) of the activity or beliefs to which these messages are aligned. However, the micro-level interaction of non-compliant businesses owners and external sources of advice is not always captured or fully considered due to the dominant large-scale extant studies and dearth of micro-level analysis.

This thesis argues that the overall lack of micro-level understanding of informal activity is related to the focus on structure (formal and informal institutions) at the *interaction* stage of analysis, whereby the institutional environment is implicitly treated as being invariant over time (Kitching, 2016). This focus on the *interaction* stage of analysis through the application of the institutional lens often leads to a failure to capture and appreciate the processual, temporal and relational characteristics of the institutional environment and individual agency. This lack of micro-level understanding has resulted in an inadequate explanation of the complexities, diverse practices, actions, rationales and situations of the individual actors at the micro-level.

1.3.1 Identifying Space for Contribution

This study will advance the current institutional explanation of the informal economy by re-examining the interaction of the institutional environment with agency, to develop a micro-level explanation of informal activity. This study also looks to more precisely understand the role of external stakeholders who act as *institutional carriers* in consideration of the persistence of IEA.

To achieve a micro-level account of informal activity this research adopts an institutional lens which is re-examined through a Critical Realist (CR) philosophical approach with its accompanying stratified ontological position, and generative view of causation. The stratified ontological view or depth realist position (Sayer, 2000) has been applied to this study through the work of Margret Archer and the morphogenetic framework (Archer, 1995) which acts as a practical complement to CR (Porpora, 2013).

The morphogenetic approach advocates the ontic separation of structure and agency while recognising their relational dependence (Herepath, 2014) and temporal influence (Archer, 1995). Although the morphogenetic approach advocates the ontic

separation of structure and agency, it remains cognisant of their inter-dependence and temporal influence on each other. By applying the morphogenetic approach to this study a more precise understanding is developed of how the "power of the parts influence the projects of the people" (Archer, 1995, p. 201) by recognising the relations and dynamic connections (Mutch, Delbridge, and Ventresca, 2006; Ram et al., 2015) over time. The morphogenetic approach allows this study to develop a non-conflating explanation of how the complex interplay of the institutional environment (parts) and agency (people) results in non-compliant economic practices at the micro-level. The *parts* in this study are considered through the institutional lens provided by Scott (2014) and the Three Pillars framework. Whereas, the morphogenetic approach provides this study with a framework to link structure and agency without conflating one with the other (Archer, 1995) by recognising their temporal influence.

1.4 Research Setting

IEA within service sector businesses makes up a significant proportion of their global activity. Indeed, *informal employment arrangements* make up 47.2% of the total employment within service sector businesses globally and 14.2% within Northern, Southern and Western Europe (ILO, 2018). Williams (2006a) identifies a significant demand for informal economic practices in the household service sector of the United Kingdom. Other existing studies also identify significant increases in the level of IEA in specific service sector industries in developed economies. For example, Clark and Collings (2018) outline that, despite the United Kingdom's developed status, data taken from the Car Wash Association in 2013 shows that there are now over 17,000 roadside hand car washes (HCW) with around 10,000 of these (around 60% of the total number) operating informally. This can be compared to data from 2004 when HCW's were virtually non-existent (Clark and Colling, 2018) showing that IEA in developed

economies such as the United Kingdom is increasing in some areas. Although IEA represents a sizable proportion of all service sector activity, and is growing in developed regions there remains a dearth of research which is focused on understanding service sector businesses which adopt informal economic practices (Kedir, Williams and Altinay, 2018; Williams and Kayaoglu, 2021)

1.4.1 Empirical Contribution to Knowledge

By focusing specifically on formal service sector businesses, this study makes an empirical contribution to knowledge by directly engaging with the lack of research on service sector businesses. More specifically, this study focuses on formal service sector businesses within a developed economic setting, namely the East Midlands region of the England as the qualitative case study for this research. These formal service sector businesses are characterised by the fact that they are largely compliant with all government registration and mandatory industry-specific organizational rules associated with their primary activity, although still adopt some informal practices at times. By focusing specifically on a developed economy with well-established formal rules and methods of enforcement, this study can fully consider the role of both formal and informal institutions to understand why otherwise formal businesses choose to switch between formal and informal economic behaviour.

Formal businesses within a developed economic setting represent an extreme case example (Yin, 2018), although these businesses mainly follow the formal rules and regulations; at times, they deviate and become non-compliant. This extreme case allows this study to develop a richer understanding of how the institutional environment within a developed setting contributes to economic non-compliance. Furthermore, by directly engaging with formal businesses about their informal economic practices this study also challenges the often inferred assumption that direct

discussions with business owners about their informality are not feasible, meaning they are often avoided (Horodnic and Williams 2018).

1.5 Aim and Objectives of the Study

1.5.1 Research Statement and Aim

This study will develop a micro-level account of how informal economic activity (IEA) emerges from the relational and temporal interplay between the institutional environment (formal and informal) and individual agency. To achieve this aim a qualitative case study methodology has been used which focuses on service sector businesses from the East Midlands region of England, which is a developed economic setting.

1.5.2 Research Objectives

This research builds upon and advances the existing institutional understanding of informal activity by addressing two objectives:

1. To explore how the interplay between the institutional environment (formal and informal institutions) and agency generates informal economic practices over time.
2. To understand how messages regarding the acceptability and legitimacy of informal activity are transmitted within the institutional environment.

1.6 Overview of Findings and Contributions

By addressing these research objectives, this study complements and more importantly advances the current theoretical understanding of the informal economy.

The theoretical contribution that this study makes is achieved by adopting CR insights and the accompanying generative view causation. This CR approach challenges the existing successionist and largely structural theoretical explanations of IEA. CR has been applied to this study by adopting morphogenetic insights from the work of Margret Archer which provide analytical clarity. By applying morphogenetic insights to this study of IEA a more precise explanation of which institutional factors matter is developed by focusing on when, why, and how they influence the economic decisions of the service sector actors in this study. The application of this CR lens is outlined in Chapter 3 of this thesis where the conceptual framework for this study is fully explained. This conceptual framework addresses the limitations of the current understanding of IEA, as outlined in the literature review (Section 2.5).

Furthermore, by explicitly focusing on service sector businesses the findings from this study also address the previously outlined lack of research on a significant and sizable part of all global IEA. The overall account of informal activity developed within this study also directly addresses calls by Afreh et al. (2019) to “look beyond narrow economic explanations” (p. 996) of informal activity and secondly by Littlewood, Rodgers and Williams (2018) to reconsider the role of agency concerning the existence of informal activity

The findings from this study indicate that various formal institutional failures characterise the contextual environment in which the service sector business owners work daily at the *interaction* stage of analysis. However, informal activity is first established as an acceptable and legitimate form of behaviour through a process of *structural conditioning* which happens early in business owner’s careers through exposure to various *informal employment arrangements*. These *informal employment*

arrangements are shown within this study to provide actors with scripts for future action by deeply embedding informality into actors' repertoire of beliefs, making informality both a normative and culturally accepted practice. This process of *structural conditioning* happens long before business owners adopt IEA in their current day-to-day business practices, highlighting the need to recognise further the temporal and relational influence the institutional environment has over social practice. Within this study, IEA is the result of informal institutional beliefs concerning the overall acceptability and legitimacy of informal activity which acts as the generative causal mechanism later actualised by various formal institutional failures at the *interaction* stage.

This study also highlights the importance of understanding the role various external stakeholders play in the existence of informal activity. These external stakeholders act as *institutional carriers* by encouraging and promoting economic non-compliance over time. *Institutional carriers* are used within this thesis to explain how messages regarding the acceptability of IEA are disseminated within the institutional environment of the actors in this study. *Institutional carriers* are therefore considered to be the vehicles that move informal ideas, practices and formal rules and regulations through time and space. More specifically this study examines how external stakeholders act as intermediaries between the institutional environment and the service sector business owners in this research to understand their role in the continued existence of IEA. *Institutional carriers* can relate to both formal and informal messages which may or may not be received. For example, the lack of formal institutional responses by government departments i.e., non-enforcement of regulations can be as equally powerful on future practice as the direct observation of, or discourse about the legitimacy of IEA.

These *institutional carriers*, help to deeply embed informal economic behaviour in practice which in many cases becomes a taken-for-granted and accepted part of small business life in the service sector. In this study, the external stakeholders identified as *institutional carriers* were employers and supervisors at the *structural conditioning stage*, accountants, customers and the HMRC at the *interaction stage*. Finally the formal business owners are also identified as *institutional carriers* as they now promote *informal employment arrangements* for future actors at the *structural conditioning stage*. These *institutional carriers* by promoting informal economic behaviour at various stages of the framework in this study lead to the continued existence of economic non-compliance. The role of *institutional carriers* within the theoretical framework for this study is fully discussed in Section 3.2.3 of this thesis.

1.7 Organisation and Layout of this Thesis

This study consists of eight chapters. This first chapter (Chapter 1) provides the background and justification for the study by outlining the main aim and overall objectives of this study. This first chapter also outlines the contributions to knowledge which are made within this research. Chapter 2 is split into two main sections. The first section focuses on grounding this study in the existing literature on the informal economy. Furthermore, this first section also provides definitional clarity as to what IEA is considered to be within this study and also outlines the overall size and significance of the informal economy and dominant policy objectives and approaches which are used to tackle informal economic behaviour. The second section of Chapter 2 focuses specifically on critically reviewing the four main theoretical approaches which are used to understand the informal economy namely; modernisation, political economy, neoliberal, and institutional approaches. This critical review concludes that although an institutional approach offers the most relevant and practical way to

understand informal economic behaviour, future applications need to reconsider their temporal influence and the role of agency by developing a finer-grained understanding.

Chapter 3 of this study outlines the conceptual framework, which is used within this study to advance the current understanding of informal activity by addressing the gaps identified in the literature review (Chapter 2). This conceptual framework allows this research to build a micro-level account of IEA in consideration of the temporal and relational power of institutions in alignment with agency. Two bodies of work are combined in this study to create the conceptual framework, institutional theory and CR. Firstly, institutional theory is applied to this study through the Three Pillars approach developed by Scott (2014). Secondly, CR is applied to this study by adopting morphogenetic insights (Archer, 1995) that provide this study with the analytical framework needed to understand how the institutional environment works at the micro-level. This morphogenetic framework is fully aligned with the CR philosophical approach which underpins this study. Furthermore, Chapter 3 thoroughly explains how the current institutional understanding of IEA is integrated into this study, namely informal institutional factors such as norms, values and cultural beliefs and formal institutional failures and imperfections.

Chapter 4 focuses on fully introducing CR which provides the philosophical underpinning for the practical decisions made within this study. Chapter 4 also discusses the qualitative case study approach used within this research and the various tools used to collect, analyse and validate the findings, discussions and conclusions. Chapters 5 and 6 report the findings and discussions from this study in relation to the conceptual framework outlined in Chapter 3. Chapter 5 focuses

specifically on the *structural conditioning* of decision making, Chapter 6 explains the situational circumstances at the *interaction* stage. Chapter 7 synthesizes the findings from this study by bringing together Chapters 5 and 6 by presenting a theoretical account of IEA that is aligned with the framework from Chapter 3. Chapter 7 explicitly addresses the main aims of this study.

Finally, Chapter 8 focuses on the conclusions of this study. This chapter revisits the overall aims and objectives of this study and outlines the main contributions to knowledge this research makes. Additionally, Chapter 8 discusses the limitations of this research and the implications of the findings for the future study of the informal economy and public policy.

1.8 Chapter Summary

The chapter has set out the aims and objectives of this work in relation to the wider theoretical understanding of IEA. Chapter 1 has also provided an explanation of the contributions and findings this study makes and structure of this thesis. The focus of the next chapter is to critically review the current literature on the informal economy. This literature review positions this study in the wider understanding of IEA and identifies the specific gaps which this research will address.

Chapter 2 - Literature Review

2.1 Introduction

This chapter sets out the literature on the informal economy which this study contributes to. This literature review is split into two main sections; the first provides a working definition of economic informality and also outlines the specific segment of the informal economy this study focuses on, namely formal business who adopt informal economic practices. Secondly, the economic significance and scale of informal activity within the global economy is discussed which highlights that the service sector is a relatively underexplored area which needs further empirical enquiry. Finally, an understanding will be provided of the various government approaches and measures which can be used to address informal activity.

The second section of the chapter will review the four major competing explanations of the existence of the informal economy; modernisation, political economy, neo-liberal, and institutional approaches. Although this study adopts an institutional lens, the other theoretical approaches (modernisation, political economy, and neo-liberal) provide important perspectives from which the informal sector has previously been studied. The final part of this section will outline how this study makes a theoretical contribution by considering the gaps in the theoretical understanding of informal activity. This chapter begins by defining the informal economy and what the term informal economic activity includes. It is important to note that the terms *informal* and *non-compliant* activity or practices are used within this study interchangeably to refer to *informal economic activity (IEA)* as defined by the activity-based definition which is set out next.

2.2 What is the Informal Economy and how Significant is it?

2.2.1 Defining the Informal Economy

This study is focused on developing a finer-grained understanding of informal economic activity (IEA) by building upon extant studies. The terms informal economy and IEA can be problematic as they are often conflated with criminality (Darbi, Hall and Knott 2018; Williams, 2019b). Therefore, it is essential to set out a working definition of precisely what IEA involves.

Ram et al. (2017) support the need for an early classification of what the informal economy does and does not include as without careful consideration the informal economy can be incorrectly classified with negativity and criminality, thus becoming an umbrella term for everything which is not formal. This conflation is seen in definitions which fail to differentiate goods and services which are illegal in themselves and those which are legal, although not reported for tax or labour law. For instance, the conflation of informality and illegality can be seen in the definition provided by Iriyama, Kishore and Talukdar (2016) who outline that “Informal firms employ illegal means in their business *and/or sell illegal products/services* [emphasis added] to their customers” (p. 2153), and by Smith (1994, p. 18) who define the informal economy as “market-based production of goods and services, *whether legal or illegal* [emphasis added], that escapes detection in the official estimates of GDP”. Although, Cross and Johnson (2000) identify some similarities between illegal and informal enterprises; they conclude that this conflation is not useful as they have different backgrounds and motivations and therefore require different policy approaches.

The term *informal economy* was coined by Hart (1973) in his description of the activity he witnessed in Ghana. Hart's (1973) study found the presence of both formal and informal sectors operating with bidirectional trade (Godfrey, 2011). However, as Hart (2006) later notes the classifications of formal and informal led many to mistake this dichotomy as reality and not as the complex model he intended. Hart (2006) revisits the term informal economy by outlining that although it was initially used to describe the “unregulated activities of the marginal poor in third world cities” (p. 23) it is now more widely accepted that informality exists as part of any economy.

The negative portrayal of all IEA's can be seen in the variety of mainly derogatory terms used to define informal activity. For instance, Enste and Schneider (2004) and Medina and Schneider (2017) use the terms *shadow* and *informal* interchangeably in their definitions which presents an overdramatic and unhelpful view of informal activity which again leads to negative connotations (Ram et al., 2017). Williams (2004) identifies some of the many different adjectives and noun combinations used in academic text (Table 2.1) to denote informal work or activity which can lead to confusion of what exactly is being discussed.

Table 2.1 Adjectives and Nouns Used to Describe Informal Work

Adjectives

Black	Cash-in-hand	Clandestine	Concealed
Dual	Everyday	Ghetto	Grey
Hidden	Invisible	Irregular	Marginal
Moonlight	Non-observed	Non-official	Occult
Off-the-books	Other	Parallel	Peripheral
Precarious	Second	Shadow	Submerged
Subterranean	Twilight	Underground	Unexposed
Unobserved	Unofficial	Unorganised	Unrecorded
Unregulated	Untaxed	Underwater	

Nouns

Activity	Economic activity	Economy	Employment
Sector	Work		

Source: Williams (2004, p. 3)

This multitude of terms used to describe economic informality also causes problems when reviewing the literature as it can be unclear what is being discussed and researched.

According to Williams (2019), there are three broad definitions of the informal economy; enterprise, job, or activity based. Enterprise definitions focus on what is missing from an informal enterprise compared with a formal one, whereas job-based definitions look at what is lacking from informal compared to formal employment relationships. Although job and enterprise definitions are popular in developing economies, they are less relevant in developed countries due to the diversity of activities present (Williams, 2019). As this study is based in England, which is a developed economic setting with an industrialised society (Ram et al., 2007), this research adopts the third approach, which is activity-based.

Furthermore, it is also now widely recognised that within formal enterprises and jobs, there is often a degree of informal actions. For instance, McGahan and Ginther (2015) outline that informality within the health care sector can range from complete non-compliance to nearly full compliance; therefore, a formal or informal dichotomy is absent. Similarly, Ram et al. (2019) look at formal businesses who adopt informal practices in response to regulatory changes. Finally, Woolfson (2007) and Horodnic (2016) look at undeclared income and find businesses may pay informal *envelope wages* to formal staff to avoid specific regulations, they therefore also operate on a formal and informal spectrum. Williams and Padmore (2013) identify formal and informal hybrid wage arrangements which are extremely prevalent in Europe and therefore must be recognised when considering policy approaches. The findings of these studies

suggest that any study which adopts a job, or an enterprise-based definition would fail to acknowledge the links between formal and informal activity.

The activity-based definition used within this study sees IEA as:

Socially legitimate paid activity that is legal in all respects other than that it is not declared to, hidden from or unregistered with, the authorities for tax, social security and/or labour law purposes when it should be declared. (Williams, 2019, p. 6)

By this definition what is missing from informal activity is declaration to relevant authorities for labour law, social security or taxation. This understanding is firmly accepted by practitioners, academics and policymakers (Littlewood, Rodgers, et al., 2018) and commonly used when researching the informal economy in Europe (Williams and Padmore, 2013).

This activity-based definition directly aligns with the institutional lens adopted in this study (Section 3.2), as although IEA's fail to comply with formal institutions they are still aligned with the informal institutions as they are considered socially legitimate (Webb et al., 2009). For instance, Webb et al. (2013) outline that the informal economy exists as "economic activities that occur outside of formal institutional boundaries, but which remain within informal institutional boundaries for large societal groups" (p. 599). Although, as Williams (2019) notes, social legitimacy can often be missing from some definitions. For example, Castells and Portes, (1989) fail to accept that although IEA does not comply with formal institutions, the activities are still widely considered legitimate and regulated by society when they define informal activity as a specific form of "income generation characterised by one central feature: it is unregulated by

the institutions of society, in a legal and social environment in which similar activities are regulated” (p. 12)

The activity-based informal classification includes business processes covering the production of goods or delivery of service which must be legal to be classified as informal and not criminal (Williams and Schneider, 2013). Webb et al. (2009) discuss this as the *means* and *ends*, with a focus on the idea that a business can transition more easily to the formal economy if it exists with legal *ends* (products and services) and illegal but legitimate *means*, such as non-compliance with labour law. Informal activity in this study is therefore considered as not being “antisocial with intent” (De Soto, 1989, p. 11) for instance the activity does not cause direct harm to society such as drug dealers or crime involving violence for profit or gain. Instead it is economic activity which is undeclared and *harmless* (Leonard, 1998). This study focuses specifically on non-compliance with formal rules which either look to regulate behaviour or enforce tax collection (Adriaenssens and Hendrickx, 2015) on otherwise legal products and services.

This study excludes unpaid work from the definition of informal as this is considered to be part of the “unpaid substance economy” (Williams 2019, p. 5). Williams (2014) points out too many “blurred edges” (p. 7) exist if the informal is defined as including gift or service exchanges which are offered in place of payment. An approach supported and adopted by Ram et al. (2019) who assert that the informal economy involves:

The *paid* [emphasis added] production and sale of goods and services that are unregistered by, or hidden from, the state for tax and welfare purposes, but which are legal in all other respects. (p. 2)

This activity-based definition does not limit this research to a formal or informal binary distinction which would restrict the scope of the study as seen in the job or enterprise approaches. This activity-based definition allows the study explore the dynamic activities of a business and the individual choices of an actor with the acknowledgement that they can vary between formal and informal (Castells and Portes, 1989; Godfrey, 2011). This approach specifically allows this study to focus on why informal activity becomes the chosen situational logic for the actors and the wider institutional context in which these choices are made and how it influences decision making.

Typology of firms and degree of formality

Within the study of informal activity there are three broad categories of firms, which need to be classified to fully understand the focus of this study. To do this, Ram et al. (2017) adopt a useful typology built from the work of Williams (2014b) which outlines the different categories of firms which can be studied. Firstly, informal firms adopting informal activities; secondly informal firms adopting some formal practices and finally, formal firms adopting informal practices. As Ram et al. (2017) maintain only those businesses which are unregistered and entirely non-compliant can be categorised as wholly informal; in practice this is relatively rare as most businesses are compliant with some but not all formal rules (Webb et al., 2013). Characterising informal activity by degree of formality (Shahid et al., 2020) transcends the existing dominant classification of individuals and businesses as being either formal or informal, it maintains that there are in fact varying degrees of compliance.

Clarifying which type of business is being studied in consideration of these three categories is important when studying informal activity as they adopt different

rationales or strategies depending on their degree of compliance. As a result, they need to be understood as separate entities as the characteristics are so diverse. For example, on the one hand, an entirely informal and unregistered business may only exist due to the competitive advantage gained from complete non-compliance (Evans et al., 2006) and its associated cost savings, meaning they remain completely invisible to the government. Depending on the motivation for this complete non-compliance, these informal businesses may have no intention or be unable to formalise as they are reliant upon a small local price-conscious customer base due to the need to remain hidden. Therefore, these fully informal businesses may be unable to meet formal requirements due to the low prices offered.

Other businesses may be intentionally less hidden to the authorities although still operating on a largely informal basis. For instance, by adopting some formal practices, a business may be able to gain access to specific formal work contracts which may even allow them to formally advertise to gain customers while still primarily operating on an informal basis. An example of this might involve declaring a small proportion of turnover to the government, meaning they would formally exist; these informal businesses may then obtain public liability insurance to access formal work contracts which require the insurance. These businesses may be registered with some, but not all government departments, for example, they may abide by tax requirements but no other laws, such as those which govern employment relationships (Shahid et al., 2020), therefore they become only part visible. Williams (2009) classifies these types of informal actors as "serial off-the-books traders" (p, 440) who have no intention of ever being fully compliant, as informality is seen as being "heavily embedded in their trading practices" (p, 440). Informal firms are therefore characterised by the fact that they rarely if ever comply with regulation (Becker, 2004) and do their best to

remain hidden from the government, with little to no intention of ever fully becoming formal. Ram et al. (2017) outline, it is only completely unregistered businesses that can be considered entirely informal, however, this is rare (Webb et al., 2013) as many businesses are neither fully formal nor fully informal as they seamlessly operate on a formal and informal spectrum (Williams and Nadin, 2012).

This study focuses specifically on businesses in the third category, these firms are formally registered and are characterised by the fact that they are fully compliant with all government registration and mandatory industry-specific organizational rules, although still adopt some informal practices. This type of businesses can be seen in existing studies of the informal economy, for instance Ram, Edwards and Jones (2007) engage with a formal firms who are registered for tax and social security payments although they still pay some employees *off the books* as under-declared employment. Woolfson (2007) finds similar behaviours where formal firms achieve cost savings by paying some staff an *envelope wage* for overtime, or by taking *cash-in-hand* payments (Williams, 2004) to avoid the tax due on some products or services. Government regulation may also be avoided due to its complex, burdensome or time-consuming nature, or even through the naivety of the business owners in some cases. Whatever the motivation for such informal activities, these actors are already largely operating in the formal sector and are fully registered with the government and any industry-specific organisations regulations. These businesses and their IEA's may potentially be made compliant (Webb et al., 2009) if the motivation for adopting IEA is fully understood.

These formal firms are in contrast to the other two categories of organization, as entirely informal firms or *serial off-the-books traders* primarily operate outside of the

formal regulations and often have no intention or cannot comply for a variety of other complicated reasons. These businesses are not only more difficult to identify due to their hidden status but may also be more challenging to transition into formality due to their persistent non-compliance.

By focusing on formal firms which adopt informal practices this study can more precisely explore why an otherwise formal firm would switch between compliance and non-compliance. This section now outlines the significance and size of economic informality in regard to the global economy.

2.2.2 The Significance of the Informal Economy

IEA makes up a significant proportion of all economic activity globally. The informal economy and its associated activities are considered to be “a persistent and ubiquitous feature of the economic landscape” (Williams and Nadin, 2012, p. 1) which needs to be formalised to achieve economic growth and development (Shahid et al., 2020). However, considering the overall global importance and significance of economic informality it remains insufficiently explored (Webb et al., 2014) when taking into account the overall consequences for groups which are effected. For example, formal businesses may suffer due to the unfair advantage gained by other firms that avoid tax and social insurance payments, labour laws, and health and safety regulations (Williams, 2019). Governments and societies may also suffer through the loss of revenue from direct and indirect taxes, which affect the government’s financial ability to improve services (Andrews et al., 2011). Moreover, the loss of regulatory control by the government can mean the quality of work offered to citizens is ungoverned and unregulated (Williams and Lansky, 2013), along with increasing the perception that rules do not have to be followed across society (Andrews, Sánchez and Johansson, 2011; Williams, 2017).

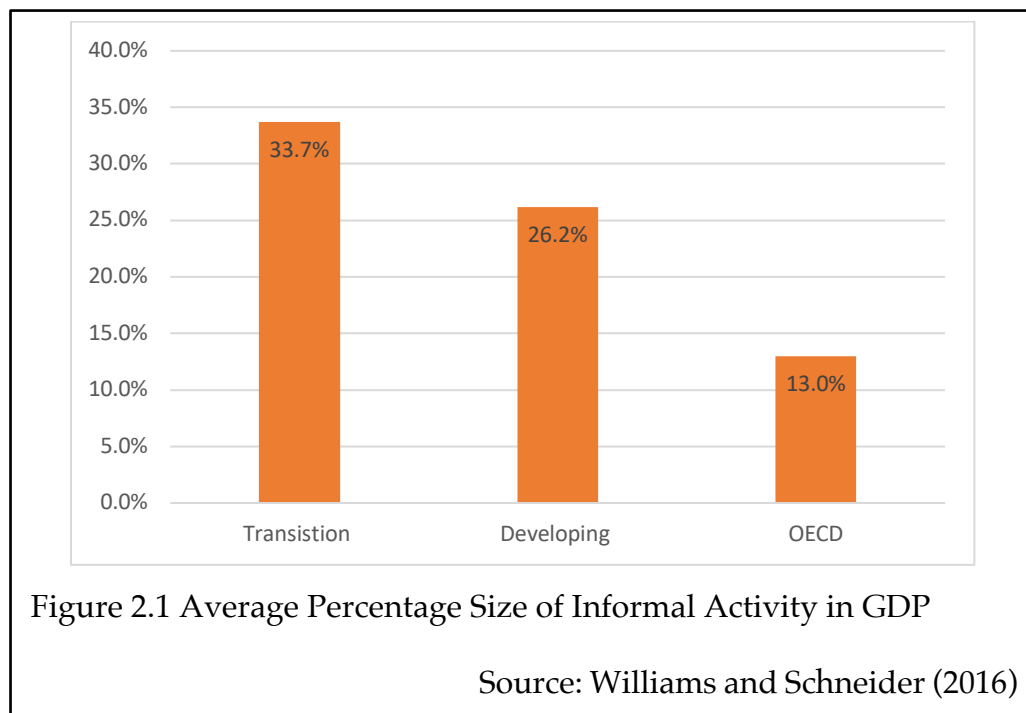
The early study of the informal economy was constrained by the belief that informal activity was the result of the lack of economic modernisation (see Lewis, 1959) which led many studies of informal activity to focus on developing and more recently transitional countries (Gerxhani, 2004). For example, large numbers of studies of the informal economy are focused in areas such as Africa, Latin America and Asia, and Eastern European areas (Schneider and Enste, 2013). These developing and transitional economies often lack the regulatory systems and have weaker legal frameworks to enforce compliance. Higher levels of informal activity are often enabled by these weaker legal frameworks and the uncertainty and instability inherent in these developing economies (Williams, 2018). Weakness in regulatory systems also contribute to the perception of higher levels of public sector corruption, which threatens the legitimacy of the government in charge and further contributes to the prevalence of IEA (Nwabuzor, 2005).

Alongside the research which focusses on developing and transitional countries, there is now increasing recognition that informality is a part of economies with well-established and modernised industrial sectors (Chen et al., 2001). For instance, Clark and Colling (2018) assert that despite the United Kingdom's developed status, data taken from the Car Wash Association in 2013 shows that there are now over 17,000 roadside hand car washes with around 10,000 of these (around 60% of the total number) operating informally. This is compared to 2004 when hand car washes were virtually non-existent (Clark and Colling, 2018). The recognition of the sizable presence of informal activity in developed countries has led to the understanding that the formal and informal economy are “intrinsically linked” (McGahan, 2012, p. 13) – not opposites as depicted in the early dual economy models (Section 2.3.1) (e.g. Lewis, 1954, 1959). As a result of this understanding McGahan (2012) asserts that many

studies of the formal economy are not complete without also considering IEA. Similarly, Godfrey (2011) proposes that not only are the formal and informal economies linked, but individuals and businesses can operate on a dynamic spectrum of formality or informality. With these individuals and businesses moving between the two poles rather than being merely formal or informal, a change which can happen during the same day (Castells and Portes, 1989). Further evidence of the interplay between formal and IEA is made clear in other studies within developed countries. For example, Ram, Edwards and Jones (2007) outline evidence of the active collusion of formal employees with their employers to receive undocumented informal pay in the United Kingdom (Ram, Edwards and Jones, 2007). While Clark and Colling's (2018) study of hand car washes the United Kingdom highlights how formal organizations rent out land to informal car washes in an attempt to remain competitive and "extract revenue from their assets" (p. 17).

Although informal activity is considered to be a significant contributor to all global economic activity, measuring the actual size of the informal economy has obvious problems due to its hidden nature (Schneider and Enste, 2000). Despite this, Schneider, Buehn and Montenegro (2010) outline that the average global size of the informal economy across their 162 country sample was 17.1% of Gross Domestic Product (GDP) between 1999 and 2007 showing informal activity contributes around one-sixth of globally economic activity. According to Williams and Schneider (2016) the informal economy on average is higher in transitional and developing countries as opposed to developed ones (Figure 2.1). At a single country level, there are significant variations in the level of informal activity across developed, developing and transitional economies. For instance, in 2007 within the developed Organisation for Economic Co-Operation and Development (OECD) countries informal activity

ranged from 28.8% of GDP in Mexico to 8.1% of GDP in Switzerland and in developing countries, these variations ranged from 63.5% of GDP in Bolivia compared to 11.9% in Macao. Finally, within transitional countries, these variations ranged from Georgia with 62.1% of GDP being informal down to the Slovak Republic at 16.8% of GDP (Williams and Schneider, 2016).



With regards to actual employment numbers, up to 60% of the global workforce have their primary employment in the informal economy (Laiglesia and Jütting, 2009). More recent figures from The International Labour Office (ILO) support this with an estimate of 61.2%, which equates to around 2 billion people (ILO, 2018). Of these people around 6.7% are working informally within formal sector enterprises (ILO, 2018) which again supports the existence of a link between formal and informal activity. These numbers can also differ dramatically by global region with further figures from the ILO (2018) showing that informal employment as a primary source of income ranges from Africa at around 85.8% of all employment to 25.1% in Europe and Central Asia. Furthermore, Autio and Fu (2015) estimate that two thirds of

businesses start up informally with many never formalising, as globally around half of all businesses are unregistered (Acs et al., 2013).

Williams and Schneider (2016) focus on 39 OECD countries between 1999 and 2010, finding that the informal economy makes up on average 20.3% of GDP with significant country-specific variations being present. These variations are highlighted in other more recent studies which show on average between 1991 and 2015 the informal economy in Bulgaria represented 30.8% of GDP, Switzerland 9% of GDP and finally the United Kingdom estimated at 13.3% of GDP (Medina and Schneider, 2017). Developed countries present an interesting research proposition as they are seen as being more legally advanced than the developing and transitional countries, they therefore should be able to enforce and monitor compliance with formal economic regulations more effectively. Although IEA within these developed countries contributes on average to a smaller percentage of GDP (Table 2.1), it still exists and is growing (Clark and Colling, 2018) despite the more influential and developed formal institutions and government rules. Although informal activity represents a smaller proportion of GDP it remains a sizable amount. For instance Barbour and Llanes (2013) outline that the informal economy in the United Kingdom in 2013 represented around 12.3% of GDP, worth around £270bn pound annually. Although, when calculating any figures regarding the size of the informal economy it must be acknowledged that it is difficult to account for formal businesses which adopt some informal practices such as under declaring turnover or using un-declared or under-declared employment which may increase these numbers further (Williams, 2018).

Within a developed economic setting, informal activity can be seen to be the result of high taxes or inadequate government involvement through the over or under

regulation of the economic market (neo-liberal and political economy views), and/or the lack of modernisation in specific geographical areas. However, informal activity is more often the result of a combination (Williams, 2015a) of factors built from more than merely economic and structural considerations. For instance, informal activity is more often related to a mix of social, geographical, cultural and regulatory issues working in tandem (Jones, Ram, and Edwards, 2006). This understanding has led to the increased popularity of the institutional view (Section 2.4), which allows multiple influences to be considered. For example, through the institutional lens informal activity can be considered as being higher when the formal institutions fail for a variety of reasons (Section 2.4.1) or the result of a lack of alignment between the formal institutional rules and the informal norms, values, beliefs and cultures of the country, society, actor or industry being researched (Section 2.4.2).

When considering the informal economy, specific industries are shown to display higher participation with non-compliant economic activity. For instance, the service sector is outlined as involving a significant percentage of all informal activity globally. Indeed, figures from the ILO (2018) calculate that 47.2% of global service sector employment is informal with 14.2% of this being within Northern, Southern and Western Europe (ILO, 2018). Furthermore, Williams (2006a) identifies a significant informal economic demand culture in the household service sector of the United Kingdom, and the construction and property industry in Europe. With a demand for informal transactions often being consciously driven by customers asking “how much for cash” (Williams, Nadin and Windebank, 2012, p. 123). These informal purchases are not necessarily related to cost-saving as they can also be due to the failure of formal firms with regards to the standard of service received or the quality of the goods (Littlewood, Rodgers, et al., 2018). Although informal service sector activity

represents a sizable proportion of all IEA. However, as Kedir, Williams and Altinay (2018) maintain there is an evident lack of academic research and literature related to understanding the service sector with regard to IEA, meaning that the characteristics of this large part of the global workforce remain unknown.

Given the size and significance of the informal economy within developed countries, despite more established formal institutional rules, and the lack of literature on the service sector specifically, this study focuses on understanding service sector businesses in a developed economic setting; namely the United Kingdom to make an empirical contribution. More specifically, this study focuses on small to medium sized enterprises (SME) who are formally registered with all the mandatory government departments for tax, and social security payments, although at times conduct IEA. By focusing on these specific businesses and area of activity this research can contribute to understanding the unknown and particular characteristics of these businesses, the actors involved and the contextual conditions which lead them to adopt informal practices in greater detail. This very specific focus allows this study to contribute to the existing conversations about economic informality.

The choice of the United Kingdom and service sector SME's for this research is also related to practical issues, namely limited funding for travel and access to respondents who adopt informal practices due to their hidden status (Vershina and Rodionova, 2011). The sole researcher responsible for collecting and analysing the data which underpins this study was able to gain access to service sector businesses located in the United Kingdom through the use of their professional connections, more precisely in the East Midlands region of England. These professional connections acted as gatekeepers to gain access to this hidden and therefore often inaccessible group of

economic actors. This sampling approach is discussed in detail in the methodology chapter of this study where the qualitative case study approach is described (Section 4.3.1).

Small to Medium Size Business Population in the United Kingdom

Small to medium sized enterprises (SME) play an important role in the economy within the United Kingdom as they make up 99.3% of the private business sector with an estimated 5.9 million businesses (Gov.Uk, 2019). More specifically this study looks at small businesses (0-49 employees) which make up 5.82 million businesses and 99.3% of the business population (Table 2.2).

Table 2.2 Business Population in the United Kingdom

Employee Numbers	Number of Businesses	Percentage Size of Business Population
Small 0-49	5.82 million	99.3%
Medium 50-249	35600	0.6%
Large 250 or more	7700	0.1%

Source: Gov.UK (2019)

Regarding turnover and employment numbers SME businesses account for 60% (16.6 million people) of the total employment and half of the United Kingdom's total private sector turnover at approximately £2.2 trillion pound (Gov.Uk, 2019). Of these figures' smaller businesses (0-49 employees) like those involved with this study employee around 13.2 million people (48%) and turnover £1.5 trillion pound (37% of total turnover).

These SME businesses can and often do suffer more in relation to the costs of compliance due to their limited resources and ability to withstand any external shocks (Chittenden, Kauser and Poutziouris, 2002) and are also perceived as engaging with informal practices more than large businesses (La Porta and Shleifer, 2014). Furthermore, as the businesses in this study are largely formal the risk of detection when they adopt informal practices also increases, as studies in different countries such as Pakistan have shown (Williams and Shahid, 2016). Therefore, understanding why informal economic practices are adopted even when detection rates are higher presents a theoretically and empirically interesting area of study. By specifically focusing on understanding why these otherwise small but economically significant, formal service sector businesses adopt informal practices this study develops rich insights and explanations of how the institutional environment and individual agency in combination contribute to economic non-compliance.

2.2.3 Participation in the Informal Economy

The informal economy although is relatively simple in its observable outcomes, it remains a complex issue to understand why it happens due to the diverse practices, rationales and people involved (Portes and Haller, 2005). For instance, in many cases due to its size and significance, both customers and businesses can participate in the informal economy intentionally or unintentionally (Williams, 2004). Businesses or self-employed actors may purposefully withhold mandatory payment of tax contributions or fail to abide by labour law regulations. On the other hand, customers may knowingly participate in the informal economy by negotiating lower prices through offers of payments in cash or by promoting the idea that a receipt is not needed (Littlewood, Rodgers, et al., 2018). Other examples of willing participation could be through allowing a friend, acquaintance or neighbour to provide goods or services for an off the books cash payment or *drink* (Williams, 2004). Alternatively, this conscious

participation maybe by an employee who agrees to work overtime for a one-off non-recorded cash payment (Ram et al., 2007).

Unwittingly, businesses or employees may not comply with mandatory rules and regulations due to a lack of awareness or understanding. Alternatively, a customer may unknowingly purchase goods or services which have been built or supplied with informal practices underpinning them. Indeed, considering the size of the informal hand car wash sector in the United Kingdom (Clark and Colling, 2018) even a mundane transaction such as car cleaning can involve participation with economic informality. For instance, Portes and Haller (2005) find that many restaurant meals are supported by staff that are informally employed. Moreover, the clothing and laptop computers that are widely available for sale across many high street shops are also being manufactured and distributed with informal arrangements underpinning them (Portes and Haller, 2005).

Whether conscious or unconscious, participation with informal activity exists in all global economies (Williams and Schneider, 2016) and the impact of these activities affect not only the individuals involved but also the extended communities of practice at the macro, meso and micro-level. As a result, tackling the informal economy presents a complex problem regarding whether or not to formalise this informal activity and how this can be achieved (Chen, 2012). The various government objectives and approaches are discussed next.

2.2.4 Policy Approaches and Policy Measures

As a result of the complexities outlined in the previous section regarding participation in the informal economy, and its overall significance in size and growth in many global regions (Williams and Schneider, 2016), informal activity is of great concern for

government policymakers. A key focus of national employment policy objectives has been focused on transitioning IEA into formal arrangements (ILO, 2014) as this is considered the most “viable policy goal” (Williams, 2019, p . 89). However, other policy objectives are also available, such as a government may take no action at all, focus on eliminating the informal economy altogether or deregulating the formal economy, making compliance easier (Williams, 2019). These four main approaches are considered next.

Policy Approaches

Taking no action against IEA or the laissez-faire approach, may be appealing in countries where informal activity is believed to be so small that the cost to enforce such compliance may outweigh the financial gains. Alternatively, if the informal economy is considered as a testing ground for new business, then doing nothing would allow these entrepreneurs the flexibility needed to test out their ideas. This point is especially relevant considering one in five businesses start informally (Williams and Kedir 2018) as early-stage entrepreneurs try to avoid the costs associated with registration while exploring whether an idea is viable (Siqueira et al., 2016). Williams and Kosta (2020) find strong evidence that formal firms which initially start informally have higher annual revenue growth than businesses that formally register at the very beginning of firm formation, with specific reference to weaker institutional environments. However, as Williams (2008) finds starting a business informally can lead to longer-term informal practices with 77% of recent entrepreneurs (business less than 42 months old) from England still engage with the informal economy despite being formally registered. Informal entrepreneurial activity is also often linked with tackling issues such as poverty, unemployment and formal institutional failures (Afreh et al., 2019) by providing those willing to operate outside

of the legal framework for a variety of reasons with a means of self-provision and improved social mobility. The income earned from informal activity might be put back into formal local businesses (Williams and Schneider, 2013). However, doing nothing in the long term may encourage non-compliance as those who currently comply with regulations begin to develop a more casual view of the law (Williams, 2017).

Eliminating the informal economy completely might be considered a viable policy option, but only if the government in charge has the power to impose and enforce the extra regulations needed to increase the cost of non-compliance. Increasing rules and regulations without sufficient power and resources to enforce the rules may increase the number of actors operating informally. Eliminating the informal economy may also result in a negative change in entrepreneurial culture or mindset. Indeed as previously highlighted the informal economy can often act as a testbed for fledgling businesses (Siqueira et al., 2016) therefore eliminating the informal economy by increasing regulation may deter future formal business owners or force them to remain informal.

A third policy option which might be considered is to deregulate the formal economy. This approach may be considered the best course of action from a neo-liberal position (Section 2.3.3) which maintains that IEA is actually the result of over regulation of the economic market (De Soto, 1989; Nwabuzor, 2005). This deregulatory approach would reduce taxes and burdensome laws which regulate economic activity. Deregulation of the economy would allow formal entrepreneurs the operational flexibility these rules prevent, a situation which may help these businesses stay formal. Alternatively, by reducing the regulations and taxes associated with compliance the benefits of operating informally would diminish making more formal business registration a

desirable outcome for those who operate on a largely informal basis. However, as Williams (2019) maintains a deregulation of the economic market would result in “widening of inequalities and a deterioration of working conditions” (p. 93); some employees would face further exploitation due to the lack of legal protection and recourse.

Finally, transitioning informal activity into the formal economy is also considered to be a potential policy objective for governments, which is the most viable approach when weighing up the pros and cons of all four government objectives (Williams, 2019). By facilitating the transition from informal to formal economic activity governments are able to increase tax revenues and help eliminate the unfair competitive advantage many formal firms face from informal rivals who avoid costly compliance with regulations. Transitioning an informal business into the formal economy would also be a desirable objective as many of the participants might benefit, for instance customers have better legal recourse, formalised employees have better employment, and health and safety rights (Evans et al., 2006). Businesses which have become formal are also able to protect themselves from the exploitation of large formal firms (Castells and Portes, 1989). Finally, other existing formal businesses are able to continue their activities unaffected by rival informal firms who are no longer driving prices and standards down. However, there are also disadvantages to this approach as customers may need to pay increased prices for goods and services typically purchased informally which may be necessity driven (Williams, 2019) and those who rely on informal activity to survive may go without.

Although this approach assumes that formality is the desired objective for informal firms, employees and customers which is not always the case. Williams and White

(2020) find that formal paid labour is sometimes the last resort for households when other options are available. Aside from formality not always being the desired option, formalisation may also be unachievable for other more complex reasons which policy may be unable to change. Such as, changing rules and regulations to facilitate formalisation assumes actors understand them in the first place. Secondly, that the failure to comply with the formal rules is a rational response to increase profit generated by avoiding specific regulations. Whereas in practice, in some cases the failure to comply with the rules and regulations is the result of disidentification with the government in charge (Kirchler, 2007) as seen in the social actor understanding of informal activity, which is discussed in Section 2.4.2 when the institutional asymmetry perspective is outlined.

Policy Measures

To achieve any chosen objective the government in charge may seek to encourage compliance or deter non-compliance, this often involves direct or indirect policy measures and strategies. Direct policy measures can be used to decrease the perceived benefits of non-compliance through the introduction of punitive measures (Barbour and Llanes, 2013) or alternatively increase the benefits of operating formally. For example, the government may increase financial penalties or increase the chance of being caught, which increase the risk and/or cost of non-compliance. Alternatively, direct policy measures may also be taken to incentivise compliance, such as simplifying the rules and providing direct and indirect tax incentives (Williams, 2019).

By adopting direct policy approaches it is assumed that those involved with economic non-compliance are rational economic actors, making decisions based on the perceived costs and risks involved against the benefits and rewards which might be

achieved. This rational economic actor perspective is built the work of Becker (1968) and Allingham and Sandmo (1972) who outlined that non-compliant economic activity (e.g. tax evasion) is the result of the expected benefit of non-compliance outweighing any penalty or chance of being caught (Dau and Cuervo-Cazurra, 2014). A reasonable government tactic would be to implement direct punitive measures to increase the risks related to non-compliance and the perceived chance of being caught (Williams and Schneider, 2016). However, those who adopt informal economic practices may not always be rational in their choices as they may actually be social actors who adopt practices such as informal activity due to a more complex rationale. For instance informal activity may be the result of personal attitudes and social influences resulting (McKerchar and Evans, 2009) from a breakdown in the social contract or a lack of trust in the government an respect for the law (Murphy and Harris, 2007; Tyler, 2006).

Although this rational economic actor view and the introduction of direct punitive measures are the dominant approaches used when seeking to formalise IEA (Williams and Oz-Yalaman, 2020) evidence of its effectiveness is non-conclusive. For example, although some studies show a fall in informal activity when fines or the probability of detection is increased (Williams 2019); others show that increased penalties (Murphy, 2005) or detection rates (Shaw et al., 2008) can increase informal activity, or have little to no long term effect. Tyler (2006) maintains that actors follow the law if they believe it to be legitimate rather than fearing punishment. Moreover, increasing regulation can also lead to more informal opportunities (Portes and Haller, 2005) and the increased attractiveness of non-compliance due to further regulatory hurdles which need to be crossed. From an institutional lens, Friedland and Alford (1991) consider this rational choice approach as the most significant "retreat from society" (p. 232) as

it fails to give the individual credit for their choices beyond that of a cost-based analysis. A rational actor view presents an under-socialised account of activity, as everything is considered to be driven by self-interest (Granoveter, 1985). However, many actors remain compliant even when non-compliance would be the rational response as the individual may self-regulate their activity (Williams, 2020), or the probability of being caught is low they still follow the formal rules (Alm et al., 1992; Sour, 2004).

Policy measures which can be adopted may also be indirect. For example tax education, normative appeals and campaigns focused on raising the awareness of the benefits of compliance and improving the level of legitimacy and respect for the government and its laws (McKerchar and Evans, 2009; Tyler, 2006). Indirect measures assume a social actor perspective, whereby informal economic behaviour is seen as being the result of social, political, moral or other identity reasons (Sour, 2004; Williams, Nadin, Newton, Rodgers, and Windebank, 2013). This social actor view is grounded in the institutional perspective (Section 2.4.2) and directs government policy towards adopting indirect measures to bring about voluntary compliant behaviour through improving trust and creating a culture of compliance (Williams and Horodnic, 2017c). Education can be a cost effective method of enforcement, with Williams and Horodnic (2016) outlining evidence from the National Audit Office that money spent on advertising to employers and employees the costs of informal work and benefits of working formally return 19:1 on expenditure compared with 4.5:1 on money spent detecting informal activity.

From a social actor perspective, economic non-compliance is the result of a misalignment between the formal rules and the individual or societal norms, values and

beliefs (Kirchler, 2007; Murphy and Harris (2007) with any increase in this asymmetry leading to more informal opportunities and activity (Webb et al., 2009; Webb et al., 2013). Therefore, the decision to not abide by specific rules and regulations is not necessarily governed on a cost to benefit ratio but is related to the degree of alignment between the norms, values and beliefs of those involved and the formal institutional rules. A social actor view is as opposed to the conventional approach of adopting direct methods to increase the costs of non-compliance (Williams et al., 2015). Alm, Cherry, Jones, and McKee (2010) support this view and assert that government policy must go beyond a deterrence model and consider a wider range of motivations which exist for economic non-compliance.

In conclusion, regardless of the government's policy intentions, it is argued here that without an understanding of the diverse “contextually specific dynamics” (Ram et al., 2019, p. 13) and lived experience of actors policy measures are likely to be unsuccessful. Indeed, unless the future research on the informal economy develops a more micro-level and granular focus which re-examines the relationship between the institutional environment and agency, policy measures may contribute an increase in economic informality by imposing additional burdensome requirements or by contributing to a culture of fear which would drive more businesses underground. Alternatively, failing to fully appreciate and understand the cultural beliefs of the society, region or industry in question and how they work at the micro-level would also mean that any attempt to align informal institutions with formal rules and the government in charge would become an impossible task. This study directly addresses this need for a better understanding of the “factors, characteristics, causes and circumstances of informality” (ILO, 2018, p. 4) by developing a finer grained causal account of informal activity. The implications of the findings from this study

for policy decision making concerning the informal economy will be outlined in the conclusion section of this thesis.

2.2.5 Section Summary

This section has established the informal economy as a sizable and significant economic area which is worthy of academic study and outlined the policy approaches which may be adopted to tackle non-compliant economic activity. This section has also provided a working definition of informal activity and set out the focus of this study as formal service sector businesses who adopt some informal practices within a developed economic setting.

This chapter now sets out existing theoretical explanations of the informal economy. Although this study adopts a neo-institutional lens, the other main competing theoretical conceptualisations of the informal economy and their limitations are discussed first, to provide the background and historical understanding of how the informal economy is studied.

2.3 Theories of Informal Economic Activity

Theoretically there are four main competing understandings of informal activity, namely the modernisation; political economy; neo-liberal and institutional views (Williams, 2019). This section reviews these four main competing conceptualisations of informal activity. Although this study builds upon the institutional approach which is fully discussed in Section 2.4 it is pertinent to first understand the background and foundations of the other main competing explanations. This review begins with the modernisation view.

2.3.1 Modernisation Theory

The academic literature on the informal economy has grown from early twentieth century dualist discussions (e.g. Lewis, 1959) that supported this previously dominant modernisation explanation of informal activity (Williams, 2019). These dualist discussions represented the informal economy as being a domain of activity taken up by marginalised populations in underdeveloped economies, which would inevitably disappear as the formal economy is established (Geertz, 1963; Lewis, 1954). This early theorisation led to the view that the informal economy exists as a “primitive, traditional, stagnant, marginal, residual, weak” (Williams and Windebank 2006, p. 536) sector that was about to be an “extinguished sphere” (ibid, p. 537) due to economic development and modern-capitalist growth (Portes and Sassen-Koob, 1987). This view that the informal economy will naturally disappear therefore reduced the attractiveness of the field of research.

The dual economy model (Lewis, 1959), which supports the modernisation thesis depicts less developed countries as being built from both formal and informal sectors which act as opposites. The formal economy being modern, progressive and capital intensive while the informal economy is unsophisticated, labour intensive and representative of a *subsistence* or a *marginal* pre-capitalist realm (Hart, 1973; Williams, 2019). In these contexts, individuals may work on an informal basis for an employer or set up a business for themselves due to a lack of formal employment opportunities. Informal activity is considered to only exist as a survivalist method of provision (Chen et al., 2001) until modernisation and industrial development absorb the excess labour (Becker, 2004; Godfrey, 2011). Ram, Edwards and Jones (2007) refine this understanding to include specific areas in otherwise developed economies may also lack modernisation, meaning that goods and services within that area cannot be

created or sold at a sufficient price to offer an economic return through formal arrangements.

Modernisation through this theoretical lens is equated with the installation of "western values, institutions and market economies" (Henken, 2005, p. 363) to the contexts in question. The modernisation view assumes that with the correct mix of economic policies and resource allocations the informal economy would be consumed by the capitalist economic transformation of the formal economy (Chen et al., 2001). Despite this assumption, the informal economy continues to exist and is expanding in many contexts (De Soto, 2001; Schneider and Enste, 2013). Moreover this informal growth happens in "unlikely places" (Chen et al., 2001, p. 4) with an emphasis on developed economies that have an "established industrial sector" (ibid, p. 4) which should have resulted with informality being consumed. Chen et al., (2001) maintain that the informal economy is not just a feature of economic growth but also a consequence of it. The "decentralisation of production" (p. 4) as seen in modern capitalist economies can involve the increased use of informal sub-contractors and the "erosion of employment relations" (Chen et al., 2001, p. 25) which can then increase the attractiveness of informal arrangements. This decentralisation of production also contributes to once formal workers being moved into precarious working arrangements as larger firms seek to cut labour costs (Castells and Portes, 1989). Previously formal employees may be made redundant through the increasing use of automated production, leaving skilled former workers needing to replace or supplement their income through informal means.

Another problem to be considered when adopting a modernisation lens is the assumption that formalisation is the desired result for individuals involved. Many

countries, industries and individuals operate by social norms and cultural beliefs which are not aligned with formalisation for a variety of complex reasons (Chen, 2012). Although this modernisation perspective has been updated to recognise the global prevalence of IEA (La Porta and Shleifer, 2014), it still equates economic informality with low quality and low-cost products produced by bottom of the pyramid markets (Williams and Kosta, 2020b).

2.3.2 Political Economy Theory

The political economy lens sees economic activity as being built from a formal core and an “informal periphery” (Godfrey, 2011, p. 245), both are considered parts of the same system which are “functionally related” (Williams, 2019, p. 20). The informal economy is depicted as an inferior economic and regressive realm that is structurally dependant on the formal economy (Becker, 2004). Castells and Portes (1989) outline that this informal periphery is built from “flexibility and exploitation, productivity and abuse, aggressive entrepreneurs and defenceless workers, libertarianism and greediness” (p. 11). Informal activity through the political economy lens is the result of under or unregulated modernisation (Williams, 2019). Alternatively, informal activity can also be seen as part of the increasing deregulation (Bhattacharya, 2014) of contemporary modernisation (Fernández-Kelly, 2006). The lack of government involvement, therefore, results in “low social protection and economic intervention” (Williams, 2019, p. 22) with those unable to obtain formal employment turning to the informal economy to survive. As observed by The International Labour Office (ILO, 2002), these informal workers can be characterised by their high levels of vulnerability. Indeed, within some contexts, this informal reality might mean workers lack of access to employment rights, minimum wages (Williams and Windebank, 1998) or job security and as a result be at risk of brutality or non-payment by employers due to the absence of formal regulation (Shapland and Heyes, 2017).

Through this political economy view actors are often seen as operating informally as a survivalist strategy which is driven by formal businesses exploitation, where they seek to reduce costs (Castells and Portes, 1989). For instance, formal employers may downsize through the increasing use of flexible work arrangements to save costs and avoid legal obligations to permanent staff (Taylor et al., 2017). This downsizing may result in shifting labour into the gig economy (Srnicek, 2017), through the use of precarious work contracts (Clark and Colling, 2018; Williams and Windebank, 2001), or sub-contracting (Jones et al., 2006), for example. The informal economy can be seen to provide cost-saving measures for formal firms (Chen, 2016) and is often considered a necessary part of supply chains (Ram et al., 2017).

This decentralisation of formal firms and the shift from traditional formal contracts to zero-hour, part-time, self-employment and home working arrangements have also contributed to the decline of decent formal work culture (Shapland and Heyes, 2017). For example, the increase in alternative work arrangements have left employees underemployed with a lack of “face to face care” (Shapland and Heyes, 2017, p. 382) from employers, these alternative work arrangements have also led to the erosion of pension provision, sick and holiday pay (ibid). Once some of the benefits of working formally are lost the move to informality is a smaller step. However, informal work can also provide a “flexible and adaptive arrangement” (Godfrey, 2011, p. 252) which may benefit some actors who avoid formal employment arrangements to obtain higher levels of autonomy and control which may be achieved by operating informally (Maloney, 1999).

From this theoretical view informal firms are depicted as being made up of “petty producers and traders” (Chen et al., 2001, p. 9) who are undervalued and underpaid

with informal activity being adopted as a survival tactic, although this not always the case (Castells and Portes, 1989). The primary objective of these informal enterprises and individuals is to serve the agenda of larger firms within a capitalist economy (Castells and Portes, 1989; Chen et al., 2001). A point agreed upon by Williams, Horodnic and Windebank (2016) who assert that through this political lens the informal economy is “an inherent feature of contemporary capitalism and a direct result of employers seeking to reduce costs” (p. 92).

Although formal firms adopting informal employment practices are seen as mostly negative, there can be positive effects, as informal employment can also provide work opportunities for those unable to secure formal arrangements. This informal activity can have positive effects on the careers of less-educated workers as it may allow them to acquire new skills which may allow them to access the formal economy, it can also provide a screening process for employers (Cano-Urbina, 2015). These informal arrangements also contribute to increases in confidence and social capital (Barbour and Llanes, 2013) and help to bring back a work culture into previously unemployed people (MacDonald, 1994). This improved work culture and improved skill set may result in fewer benefit claimants and a reduction in public spending on training the unemployed or low skilled, as some skills will be acquired through this informal work (Williams, 2014a).

From this political economy lens, informal activity is the result of weak formal institutional rules, which is characterised by lower taxes, low public expenditure and low levels of social and worker protection (Williams, 2019). Friedman et al. (2000) find evidence that higher taxes mean more robust legal environments and less informal activity. For example, countries with higher taxes and therefore increased public

expenditure can maintain more comprehensive labour market policies leading to improved social contracts and benefit safety nets which aim to stop worker exploitation (Williams, 2019). Although, it cannot be assumed that employees from small businesses would necessarily welcome more government intervention (Ram et al., 2007), various studies show that increasing bureaucracy leads to lower economic growth and more informal activity (Loayza, 1996; Loayza et al., 2004). Increasing bureaucracy can increase levels of corruption and market distortion, which forces businesses to operate informally (Friedman et al., 2000) as seen in the neo-liberal lens.

2.3.3 Neo-Liberal Theory

The neo-liberal approach differs from both the modernisation and political economy view as it focuses on the informal economy as being a progressive rather than a regressive option, with IEA being considered as an inventive response to business constraints (De Soto, 1989). Informal activity through this neo-liberal lens is a rational choice as opposed to being out of necessity (London and Hart, 2004). Neo-liberals such as De Soto, (1989; 2001) view government intervention as a distortion to proper supply and demand and market conditions (Becker, 2004). Informal markets from the neo-liberal perspective, provide an opportunity for entrepreneurs to avoid government over-regulation (De Soto, 2001). Nwabuzor (2005) maintains that “informality is a response to burdensome controls, and an attempt to circumvent them” (p. 126). Friedman et al. (2000) outline that from the neo-liberal view businesses operate informally when faced with intrusive bureaucratic burdens, high corruption levels and a weak legal framework. As a result, the government receives less income and public administration weakens.

Ram, Edwards and Jones (2007) maintain that through a neo-liberal lens, any form of state intervention distorts the market, disrupting the natural flow of supply and

demand. For instance, from a neo-liberal view, the introduction of national minimum wages (NMW) would mean that small businesses would be seen to turn to informal practices to save costs due to the “burden of excessive regulation” (Ram, Edwards and Jones, 2007, p. 320). Similarly, Prado (2011) discusses that increased regulation and taxation contribute to increases in informal activity. These informal markets offer a vast range of opportunities for businesses or individuals willing to operate outside of the restraints of formal boundaries (Webb et al., 2009). The sense of freedom and flexibility gained by voluntarily leaving the formal market (Gërzhani, 2004) does not, however, go unregulated as these transactions tend to be underpinned by social as opposed to legal foundations (London and Hart, 2004).

Through the neo-liberal lens, a reduction in tax and government regulation would reduce the size of the informal economy as regulatory requirements are lowered. This assumes that individuals involved want to formalise but are prevented by costly and time-consuming processes (Williams, 2019). However, Ram et al., (2017) maintain that there is a lack of concrete evidence to support the idea that regulation and tax reductions would reduce informal activity. Furthermore, Ram, Edwards and Jones (2007) conclude that it is not regulation which is the problem; instead, it is the “sheer pressure of competitive forces in markets where the supply of entrepreneurs outruns the demand for their product” (p. 321).

Neo-liberalism sees the individual as a local hero as opposed to a villain (Ram et al., 2007) who is driven underground to avoid the regulation imposed by formal institutions and is seen as “casting off the shackles of an over intrusive state” (Williams, 2006b, p. 76). Informal activity from this neo-liberal view is a rational tactic taken to improve the prosperity of those involved by avoiding the over burdensome

constraints placed on forward-thinking individuals (Maloney, 2004). In this view informal activity is opportunity-driven and regulated through its apparent legitimacy (Webb et al., 2009) with these organisations and individual actors choosing (Gerxhani, 2004; Snyder, 2004) to work in this way to remain flexible or to test out an idea (Williams and Williams, 2014). This may mean an opportunity to formalise later once enough capital has been raised to compensate for over-regulation. However, as Williams and Williams (2014) find from their study of informal entrepreneurs, this opportunity based view can be too simplistic as multiple motives exist for informal activity; for example, increased flexibility, personal challenge or an economic means for those who are just unsatisfied with their current employment.

Informal activity from this neo-liberal view could be considered “as an asset to be harnessed” (Williams and Windebank, 2006, p. 536) which promotes entrepreneurial mindset and culture (Williams and Martinez, 2014) due to the flexibility and low start-up costs involved. A failure by policymakers to understand the business acumen needed to spot and capitalise on an idea could lead to measures that reduce entrepreneurial flair and opportunistic behaviour. An area for concern here may be that many of these informal businesses may never fully formalise (Williams, 2009). Indeed, informal businesses can remain small or be slow to grow, as they often lack formal accounts that are needed to access investment capital for future growth (ILO 2015). Slow growth can also be linked to the inability to advertise due to a fear of detection (Williams, 2017), meaning that attracting customers can become difficult. Starting up a business informally may also provide an entrepreneur with a business which only gains customers through the low prices achieved by non-compliance, such a business can never formalise due to the costs incurred with compliance.

The neo-liberal view gives limited consideration to the role of culture (D'Hernoncourt and Méon, 2012) as it attributes the growth of informal activity to governments, who lean toward over-regulation and heavy taxation (ibid) and the assumption of public sector corruption (De Soto, 1989). De Soto (1989) maintains that there is no evidence to support any theory which aligns informal activity with "social, cultural or ethnic factors" (P. 185) as it is merely a rational response to the evaluation of the costs and benefits of compliance. Although, by operating informally, trust must be considered as a crucial factor as it can substitute for a legal system in many transactions (D'Hernoncourt and Méon, 2012). Informal activity must be associated with some social, cultural or ethnic elements upon which trust is built. This is now shown to be the case with social and personal norms having a direct effect on tax morale and formal tax compliance (Torgler, 2004; Walsh, 2012).

2.3.4 Section Summary

In conclusion, the modernisation, political economy and neoliberal views which are summarised in Table 2.3 focus on macro-level structural explanations regarding the rationale for economic non-compliance (Williams, 2019). For instance, the modernisation view equates non-compliance with economic underdevelopment, whereas the political economy and neo-liberal views see informal activity as a result of under or over economic regulation. Although these economic forces and structural factors have power over businesses and individuals, the over-reliance on these as an explanation has resulted in a lack of understanding of individual agency, as an economic view alone does not tell the whole story (Ram et al., 2007). Institutional theory has more recently attempted to bridge this gap by offering an understanding that considers how informal institutional factors also contribute to economic non-compliance, such as individual norms, values and cultural beliefs. These prior structural explanations such as the lack of modernisation and over or under regulation

of the economic market (modernisation, neo-liberal and political economy theories) are formal institutional imperfections or failures from the institutional perspective which lead to informal adjustments by society (Ireland and Webb, 2015).

2.4 The Institutional View

From the institutional perspective the informal economy is a result of formal and informal institutional boundaries (Ketchen et al., 2014). Formal institutions represent mandatory government regulations with regards to things such as labour and tax laws. In contrast, the informal institutions represent the norms, values and beliefs of society. Ram et al. (2019) assert that economic informality is based on unwritten rules and “tacit understandings” (p. 2) which form informal institutions. Informal activity avoids compliance with specific formal rules but remains acceptable and legitimate within society (Godfrey, 2011; Siqueira, Webb and Bruton, 2016; Webb et al., 2009).

Table 2.3 Competing Theories of Informal Economic Activity

Theory	Key Indicators	Individual Rationale
Modernisation	Formal and informal economies are independent. Formality is a positive realm with informality being inferior. The level of informal activity is directly related to economic development.	Necessity driven within marginalised populations.
Political Economy	Formal and informal economies are functionally related. Countries with high tax rates have less informal activity. Informal activity results from the lack of state and government intervention. Informality is the result of deregulation.	Informal activity is necessity driven for those lacking any other choice, therefore a survival strategy or on the other hand, a rationale choice made due to the lack of government regulation.
Neo-Liberal	Informal activity is the result of high taxes and too much government involvement. The informal economy offers flexibility and independence.	Informal activity is a rational economic decision whereby actors voluntarily choose to escape over-regulation and excessive taxation.

Source: Author

The formal and informal institutions affect economies' ability to perform as they reduce uncertainty in everyday life by guiding human interaction (North, 1990). Furthermore, North (1990) outlines that "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction" (p. 3). These institutions are different from the organisations or actors that play the game, although they affect how it is played. Organisations are defined as groups of individuals sharing a common purpose; these groups of individuals are both created by and influence the evolution of the institutional framework. Types of groups may include economic (i.e., businesses or trade unions); social (i.e., clubs); educational (i.e., schools and training centres) or political (i.e., city council or political parties) (North, 1990).

Williams (2018) provides a comprehensive review of the application of institutional theory to the informal economy and outlines its evolution through three successive instalments (Table 2.4).

Table 2.4 Instalments of the Institutional Approach

Institutional Theory	First Wave Formal institutional failures which result from formal voids; inefficiencies; uncertainty and weakness and instability for example.	Social actor with informal activity being chosen as a result of institutional failings
	Second Wave Recognition of informal institutions. Asymmetrical relationship between formal and informal institutions results in non-compliant economic activity when there are also formal institutional failures.	Social actor with informal activity being chosen as a result of institutional asymmetry
	Third Wave Institutional asymmetry is the result of formal institutional failure.	Social actor with informal activity chosen as a result of institutional asymmetry which is related to formal institutional failings

Source: Author

Firstly, formal institutional failures and imperfections are viewed as causing informal activity. Secondly, the role of informal institutions was recognised as being more critical (Scott, 2014; Webb et al., 2009), which led to a closer examination of institutional incongruence. Finally, Williams (2019) proposed a third instalment which considers formal institutional failings as being responsible for creating the incongruence between formal and informal institutions, which in turn leads to higher participation with informal activity. The three waves of institutional theory are discussed next.

2.4.1 First Wave – Formal Institutional Failures and Imperfections

The first application of the institutional lens to the study of informal activity focused largely on formal institutions which act as the "legal rules of the game" (Williams, 2019, p. 27). From this perspective, any failure or imperfection by the formal institutional rules, regulations, or their enforcement results in larger informal economies as actors adopt IEA's to compensate. Therefore, individuals were often considered as rational economic actors who in the event of an institutional failure evaluate the costs and the benefits of non-compliance (Kayaoglu and Williams, 2020). Formal institutional failures can be categorised into four main types (Table 2.5), these being formal institutional misallocations and inefficiencies; formal institutional voids and weaknesses; formal institutional powerlessness and finally, formal institutional instability and uncertainty (Ireland and Webb, 2015; Williams, 2019).

Table 2.5 Types of Formal Institutional Failures

Type of Formal Institutional Failure or Imperfection	Examples
Formal Institutional Misallocations and Inefficiencies	A lack of - Procedural fairness; re-distributive justice. Corruption – use of public office for private gain; state capture. Lack of trust in other actors.
Formal Institutional Voids and Weaknesses	Over and under regulation of the economic market.
Formal Institutional Powerlessness	Lack of institutional strength when enforcing regulations.
Formal Institutional Instability and Uncertainty	Continual regulatory changes. Technological advancements causing uncertainty

Source: Author

Economic informality is only considered non-compliant due to the introduction of various formal rules and regulations over time which now govern market transactions. Any study of the informal economy must therefore consider the role of formal institutions when trying to understand the informal economic behaviour of the actors involved. Formal institutional failures do not need to exist objectively, the subjective belief of institutional failure, and the perceived effect on the actors involved, may still have a causal effect (Bylund and McCaffrey, 2017). Indeed, regardless of whether the actor has actually experienced an institutional failure first-hand or through discourse with their wider network, the actor may make informal adjustments (Ireland and Webb, 2015) and turn to informal institutions to govern their behaviour.

Within this first wave of institutional theory, little attention was given to the importance of how informal institutions work (Williams, 2018), as a result the importance of the norms, values and cultural beliefs of society in supporting non-compliant activity were often overlooked (Ireland and Webb, 2015; Webb et al., 2009). As Hart (1973) found, economic non-compliance does not result in mayhem, as the activities remain structured by informal rules and value-adding for those involved (Ireland and Webb, 2015).

2.4.2 Second Wave - Institutional Asymmetry

In the second wave of institutional thought, a neo-institutional lens is adopted which maintains that actors behave in a way that is in alignment with informal institutions, such as societal and personal norms, values and cultural beliefs (McKerchar and Evans, 2009; Sour, 2004). The informal economy from this view is believed to provide an alternative and legitimate means of self-preservation when formal institutions have failed (Ireland and Webb, 2015; Webb et al., 2009). Non-compliant economic behaviour is considered to be an adjustment by society to provide for itself when formal institutions have failed and hinder a business's operational flow. This second wave of thought highlights the importance of informal institutions such as norms, values and cultural beliefs (Ram et al., 2019) to guide behaviour. Afreh et al. (2019) outline during a study of informal entrepreneurs in Ghana, there is a need to look beyond purely economic rationales for informal entrepreneurship or activity as it is the result of a cocktail of factors.

By adopting a belief that informal conventions, as well as formal rules and procedures, matter the neo-institutional view of informal activity has led to a more realistic picture of how informal activity emerges from an institutional environment. Informal activity from the neo-institutional perspective is not merely a result of formal failings (*first*

wave) there also needs to be miss-alignment between the norms, values and beliefs of the actors involved and government regulation (Littlewood, Rodgers and Williams, 2018; Webb et al., 2009; Webb et al., 2013). These institutional miss-alignments result in actors making informal adjustments which provide “socially acceptable opportunities” (Webb et al., 2013, p. 602) for those who wish or need to avoid formal regulation for a variety of reasons. This socially acceptable but economically informal area provides a space for non-compliant firms to exist which, while not formally governed, are still regulated by the informal institutions of society where the activity is considered legitimate (London et al., 2014; Sutter et al., 2017; Webb et al., 2009). This same economically informal space provides an area for formally registered businesses to make informal adjustments to their daily business strategy and practices when needed. The existence of this socially legitimate arena provides informal businesses with advantages over formal business as they can operate without tax or labour obligations which allows the provision of goods and services at lower prices in many cases. Although, informal businesses can also be inefficient (London et al., 2014). This neo-institutional view has more recently dominated academic literature on the informal economy (see: De Castro, Khavul and Bruton, 2014; Ogunsade and Obembe, 2016; Ram et al., 2019; Webb et al., 2009; Williams and Horodnic, 2015; Williams, Martinez-Perez and Kedir, 2017b).

Through this second wave of institutional thought, tax morale is considered an essential factor (Williams, 2020). Although most people understand the need for taxes, their feelings towards them are often negative (Kirchler, 2007), which can result in more informal activity (Kayaoglu and Williams, 2020). Williams and Horodnic (2017b) consider low tax morale to be the result of a gap between civic morale (which represents society and informal institutions) and state morale (which represents

codified laws of formal institutions such as the government). The informal economy grows due to institutional incongruence between formal and informal institutions, and what each considers legitimate (Williams, Horodnic and Windebank, 2015) – a breakdown in the social contract between the state and its citizens. This breakdown can arise from a lack of trust in the government (Williams et al., 2015), but can also be related to the lack of trust in other citizens (Horodnic and Williams, 2019). While increased trust in the government can have a positive effect on formal compliance, any increase in the trust of informal institutions can also have the reverse effect as actors often depend on each other by replacing formal contracts with informal arrangements (D'Hernoncourt and Méon, 2012). This lack of trust in the government, other businesses and individual actors (Horodnic, 2018) can result in a race to the bottom through increasing non-compliance (Walsh, 2012; Williams, 2017).

The growth of informal activity in this second wave of institutional theory is, therefore, a result of institutional failings coupled with a misalignment between formal and informal institutions which provide the actor with an understanding of what is and is not legitimate (Godfrey, 2015; Webb et al., 2009). Ireland and Webb (2015) find that actors make informal adjustments by turning to the norms, values and beliefs of society to govern their economic behaviour when formal institutions have failed to govern economic activity appropriately and efficiently. Murphy and Harris (2007) underline the importance of these informal institutions with regards to compliance or non-compliance, with factors such as emotion and social disapproval playing a role in societal the acceptance of different activities. As discussed, within this second wave of institutional theory the alignment of the formal and informal institutions matters when there are also formal institutional failings. For instance, if the norms and beliefs of society are complementary to the rules and regulations which

govern business activity, then any institutional failings will not necessarily result in any more informal activity. However, it may still occur unintentionally if rules and regulations become too complicated (Williams, 2019).

Williams (2019) goes on to outline a third instalment of institutional theory, although it is not necessarily distinct from the first two explanations as it synthesises both perspectives. This instalment asserts that institutional incongruence results from formal institutional failings, empirical studies now demonstrating that this can be the case (Williams, 2020). This third approach is opposed to the second instalment, whereby formal institutional failings coupled institutional asymmetry result in a higher level of informal activity which has a legitimacy of its own.

2.5 Defining the Research Problem

While the institutional perspective has gained popularity in the study of IEA (Ram et al., 2019) there remains a lack of fine-grained analysis (Littlewood, Rodgers and Williams, 2018; Webb et al., 2013). Much of the study of informal activity has been at the national level using quantitative approaches (Littlewood, Rodgers, et al., 2018). For instance, direct microeconomic methods and quantitative approaches are often used to understand institutional incongruence. This microeconomic view looks at “subjective expectations, attitudes and motivations” (Schneider and Enste, 2013, p. 106) to establish an actor’s level of tax morale. Tax morality or mentality is considered as the basic attitude towards taxation, which can be directly related to tax evasion and the growth of informal activity (Schneider and Enste, 2000). Higher levels of tax morale are often linked to more trust in the government alongside greater levels of attachment and identification to the country which also positively influence the

economic behaviour of citizens who opt to pay taxes to support the state (Kayaoglu and Williams, 2020).

Typically, quantitative analysis of attitudinal questions towards various informal practices are used to measure tax morale. For example, Williams, Horodnic and Windebank (2015) review the results from a direct survey of 27,563 people within 28 European Countries. This approach looked at the attitude of the survey respondents to six different informal work situations, such as:

- a firm is hired by another firm and does not report earnings.
- a firm hires a private person, and all or part of their salary is not declared.
- a firm is hired by a household and does not report earnings.
- someone evades taxes by not or only partially declaring income.
- someone receives welfare payments without entitlement.
- a person hired by a household does not declare earnings when they should be declared.

The responses available are based on a 10-point scale with varying degrees of acceptability to establish tax morale which, are then combined with previous answers which established participation with informal activity in the 12 months before the study. Findings from this and other similar studies show a strong statistical correlation between informal work and low levels of tax morale not only at the individual level but also by population groups and countries. Williams and Horodnic (2015) adopt a similar attitudinal approach to evaluate the results from 11,131 interviews conducted in countries within Central and Eastern Europe which also show evidence that a lower level of tax morale correlates with higher participation in the informal economy across individuals, business types and countries. The results of these direct survey studies show a significant positive relationship between the levels of misalignment between the formal and informal institutions and levels of informal activity. For instance, Gërxhani (2004a) adopts an attitudinal survey approach and

maintains that when formal and informal institutions clash more tax evasion can be found. Further support for these findings exists in data from the European Union (Williams and Horodnic, 2015a; Williams, Horodnic and Windebank, 2015); Bulgaria, Croatia and Macedonia (Littlewood, Rodgers, et al., 2018); Bulgaria (Kojouharov and Dzhekova, 2017) and the United Kingdom (Williams and Horodnic, 2016).

Alternatively, indirect methods are also used to study the informal economy. These indirect methods use macro-economic data to analyse economic correlations which then indicate the size of the informal economy (Schneider and Enste, 2013). An indirect method which is growing in popularity is the Multiple Indicators Multiple Causes (MIMIC) method. MIMIC is a confirmatory model that is used to look at informal activity to estimate the relationships between causes and indicators, testing a researcher's theory (Schneider, 2018) against economic data sets. The MIMIC method has been used to find cross-national variations in the size of the informal economy alongside the different causal determinants present (see Dell'Anno, Gómez-Antonio and Pardo, 2007; Igudia et al., 2016; Loayza, 1996; Medina and Schneider, 2017; Schneider, 2002; 2018). The MIMIC model is limited to providing insights based around hypotheses meaning this approach fails to consider anything outside of the premises set. For example, multiple causes may be considered which are related to the burden of tax or regulation, the actor's attitude toward tax (Schneider and Enste, 2013) and indicators may be reflected in monetary, labour market or production market developments. Williams and Schneider (2016) adopt the MIMIC approach to test out different hypotheses which provides an overview of the relative influence of different causal variables. This study finds tax morale, unemployment and self-employment as the most significant influential determinants of informal activity across the Organisation for Economic Co-Operation and Development (OECD) nations. Further

findings by Williams and Schneider (2016) which relate to the United Kingdom (where this research is based) show unemployment rates have the most significant influence on the size of the informal economy, followed by tax morale, indirect tax, business freedom and finally personal tax. These results for the United Kingdom would suggest that more importance be given to reducing unemployment and improving tax morale if a reduction in the rate of informal activity is a priority.

Direct and indirect survey methods are successfully used to statistically map (Godfrey, 2015) the specific institutional determinants of informal activity and indicators of its presence in different national contexts. However, due to the large-scale survey approaches adopted for data collection and quantitative methods of analysis they fail to provide an adequate explanation of how these various determinants work at the micro-level, resulting in a lack of finer-grained understanding. While large scale surveys show that tax morale with regard to the prevalence of IEA is a statistically important determinant which is influenced by institutions (Torgler, 2007), these large scale studies fail to fully explain how high or low tax morale arises or is maintained (Feld and Frey, 2002). Although low levels of tax morale are often associated with dissatisfaction in public systems (Shaw et al., 2008) or built up from formal institutional failures (Williams, 2019), different methodological approaches are needed to develop an understanding of how these institutional factors are experienced by individual actors.

To bridge the gap in understanding, qualitative approaches are adopted to study informal activity as they are extremely relevant for recasting theory (Ketchen et al., 2014) and moving the understanding of informal activity forward. For example, De Castro, Khavul and Bruton (2014) look at how entrepreneurs purposefully move

between meso-level beliefs and macro-level regulations through a case study approach. Ogunsade and Obembe (2016) look at the influence of formal and informal institutions on informal activity in Nigeria through informal observation and interviews. Ram et al. (2019) examine formal regulatory change and informal responses in the United Kingdom through an individual case study approach. Al-Mataani, Wainwright and Demirel (2017) use in-depth qualitative interviews to examine entrepreneurs who adopt hidden or informal practices as a result of both regulatory and social institutional factors. This research adopts a qualitative approach in the same tradition.

2.5.1 The Research Problem

In existing conceptualisations there is a lack of understanding of the processual, temporal and relational characteristics of the institutional environment concerning how the institutional context shapes informal economic practice. The temporal and historical context of action is often under-researched, even though it provides an essential understanding of how historical events and "life courses" (Afreh et al., 2019, p. 999) influence agency – and therefore any future action or observable practice. For instance, formal institutional factors such as regulatory burdens and informal norms, values, and cultural beliefs are often considered to be a "stable presence or a stable absence" (Kitching, 2016, p. 13). Meaning that the institutional context is often implicitly treated as being invariant and fixed as opposed to a dynamic and varying phenomenon (Kitching, 2016). Ram et al., (2019) maintain time is an essential factor when considering the "complex and contextually specific dynamics of formalisation and/or continued non-compliance" (p. 13). There are calls for the study of history and the temporal context behind key events in other fields, such as international business (Buckley, 2020). For example, Buckley (2020) highlights that history matters when

considering causation as the processes behind events can be considered by temporal order to understand how they affect an outcome.

The failure to "incorporate temporality into social theory appropriately" (Archer 1995, p. 80) results in a lack of adequate understanding of how the "causal chain unravels over time" (p. 91). This lack of temporal understanding results in explanations which prioritise structure over agency, or *visa versa*, which are largely confined to the "present tense" (ibid, p. 92). This is demonstrated in the extant study of the informal economy. The main focus of these studies has been on understanding the interplay of formal and informal institutions (Afreh et al., 2019), with little consideration of how they work over time – as the explanation is over-reliant on the structural power of institutions. For instance, Littlewood, Rodgers and Williams (2018, p. 11) focus on the relationship between formal and informal institutions by identifying various macro-level drivers which "force or encourage" informal activity for a selection of policy users in South-East Europe. Littlewood, Rodgers and Williams (2018) identify instabilities demonstrated by frequent policy changes; inefficiencies such as policy failure; voids or loopholes which allow informal activity, and weaknesses such as limits placed on trade union activity to protect marginalised workers. These various institutional failures cause institutional incongruence by undermining the legitimacy of the government in charge. How these various institutional imperfections have affected micro-level practice over time is not adequately understood, as the explanation is over-reliant on the structural power of institutions. In many cases actors are believed to adopt informal practices because it is believed to be socially acceptable, however actors are not mere "cultural dopes" (Rerup and Powell, 2017, p. 317) and agency must be fully considered as actors do not operate within institutional contexts uninfluenced by their knowledge or desires (Archer, 1995; Fleetwood, 2014). Little

attention has been paid to individual agency and the processual influence of the institutional environment on the individual or the decisions they make over time. A more detailed account of the relationship between the structural context and agency is needed to move the existing conversation regarding economic informality forward.

Existing macro-level research on the informal economy also fails to acknowledge the importance of understanding how institutional messages are transmitted and who carries them. Formal rules and regulations are recorded, written down and maintained through the law, in accordance with which they are enforced. Whereas, informal beliefs and norms are not formally recorded or officially enforced, therefore actors are reliant on receiving messages and observing others as examples of how to behave appropriately (Lowndes and Roberts, 2013). For these formal rules and informal conventions, observations and messages to guide, shape or influence any behaviour, they must be transmitted to individual actors to have any causal effect. Indeed, the social acceptability of informal activity alone will not have a causal effect on agency unless it is observed, experienced and/or understood by the actor. Therefore, when considering the interplay of structure and agency, it is important to understand how institutional messages regarding the acceptability of non-compliance are carried, and who transmits them.

This study considers the role of various external stakeholders as intermediaries who work as *institutional carriers* (Scott, 2014) by linking the external institutional environment to the service sector business owners. *Institutional carriers* can have a lasting influence on future decision making because of their relational power and influence. For example, an institutional message may be related to promoting compliance or non-compliance, or the level of legitimacy of the government. On the

one hand, these messages may be sent by government departments to promote compliance with mandatory rules, through direct or indirect measures. However, these messages may lack causal power as the individual actor fails to trust or feels disidentified with the government (Littlewood, Rodgers and Williams, 2018). On the other hand, messages about compliance with the mandatory rules may also be transmitted by other "formal regulatory agents" (Ram et al., 2019, p . 12) such as accountants who promote the idea that non-compliance is acceptable. Accountants, in this case, act as institutional agents who are trusted by the individual actor are therefore more likely to influence future decision making. In this scenario, the accountant becomes instrumental in legitimising non-compliance and embedding it in the individual actor's practice due to their professional status, expertise and the level of trust they hold in the eye of the actor. Although existing studies of small businesses identify various specialist professionals and other informal business friends who act as important sources of external advice (Bennett and Robson, 1999), such as accountants (Ram et al., 2019), this area remains largely absent from the current understanding of informal activity. This study argues that understanding *institutional carriers* is important when developing a causal account of how the institutional environment contributes to informal activity.

In conclusion, this study will develop a micro-level explanation of how IEA emerges from the interaction between the institutional environment and individual agency. To achieve this aim this research builds upon and advances the existing institutional understanding of informal activity by addressing two objectives:

1. To explore how the interplay between the institutional environment (formal and informal institutions) and agency generates informal economic practices over time.

2. To understand how messages regarding the acceptability and legitimacy of informal activity are transmitted within the institutional environment.

To achieve these objectives the next chapter focuses on developing a conceptual framework to understand how the institutional environment works in relation to individual agency. The application of this conceptual framework to this study will provide analytical and theoretical clarity regarding the “factors, characteristics, causes and circumstances of informality” (ILO, 2018, p. 4) which the extant literature fails to adequately explain. The micro-level and processual account developed herein also answers calls to “look beyond narrow economic explanations” of informal entrepreneurship and activity (Afreh et al., 2019, p. 996).

2.6 Chapter Summary

This chapter has reviewed the literature on the informal economy, which has positioned this study, and identified gaps in the current understanding of informal activity. The first section established a working definition of informal activity and provided evidence of the overall size and significance when considering all global economic activity. The size and scale of IEA has established it as being worthy of academic interest and further research. Although IEA within service sector businesses represents a significant proportion of all global economic informality, there is a lack of existing research in this area (Kedir, Williams and Altinay, 2018). This lack of understanding means that characteristics and rationales of the individuals involved in service sector businesses who adopt informal practices remain mostly unknown. This study directly addresses this lack of research by focusing on service sector businesses who adopt IEA's in a developed economy. This marks out where this study makes an empirical contribution.

In the second part of this chapter, the four main theoretical approaches used to understand the origins of informal activity have been identified and critically reviewed. Within this review of theoretical approaches, it has been explained that the modernisation, political economy and neo-liberal lenses alone provide a narrow view of the structural determinants of informal activity due to their focus on macro-level factors. Although this study adopts an institutional lens, the other competing explanations provide an essential account of the development of the informal economy as a field of study.

This review of the theoretical understandings of informal activity has highlighted the importance of the institutional environment regarding economic non-compliance. It has also outlined that there is a lack of a micro-level understanding, which would better account for the role of agency. This study directly engages with this gap by focusing on developing a micro-level account of IEA which explores the temporal and relational interplay of the institutional environment and agency. The conceptual framework used within this study provides the idea context which bridges these gaps in understanding. The conceptual framework is outlined in the next chapter.

Chapter 3 - The Conceptual Framework

3.1 Introduction

Chapter 2 outlined the background for this study and provided a critical review of competing theoretical views used to account for the existence of informal economic activity (IEA). This critical review of the literature problematised existing theoretical understandings of informal activity. Whereas the aim of this chapter is to provide a conceptual framework to explore and understand how the temporal and relational interplay of the institutional environment and agency influence the decision to adopt informal practices. Miles and Huberman (1994) assert that the conceptual framework, whether it be in narrative, graphical or both explains the main areas of investigation for the study, such as the concepts, variables and the relationships between them. This framework provides a “tentative theory” (Maxwell 2013, p. 39) of what is going on in the study and why. This framework is linked to the goals, research questions, methods, potential validity threats and justification for the research (Maxwell, 2013). For this reason, the conceptual model is presented after the literature review but before the methods chapter (Chapter 4).

The conceptual framework, which may also be known as the idea context (Maxwell, 2013), provides a reference point to the extant institutional research on IEA and also scaffolds the findings for this study. Presenting the conceptual framework at this stage of the thesis provides a coherent outline of the concepts (Blaikie and Priest, 2019) used to understand how an observable social practice such as IEA comes to be (Strauss, 1995). This conceptual model also provides analytical clarity which guides the categorising and connecting stages of data analysis (Section 4.6) and the layout of findings and conclusions from this study (Chapter 5 and 6). Presenting the conceptual

model before the data allows readers to share the idea context of the researcher and to provide a model of what is being studied and why, this is in keeping with established Critical Realist (CR) principles (e.g., Maxwell, 2012, 2013; Blaikie and Priest, 2019). The findings and concluding conceptual model (Chapter 7) provide a useful theoretical understanding which broadens knowledge as to why and how IEA becomes an accepted practice over time. This conceptual model provides both a rationale for, and solution to, the research problem outlined in Section 2.5.1.

This conceptual framework is built from two bodies of work. Firstly, institutional theory provides the concepts and structural categories which are consistent with existing research on the informal economy. More specifically, this study uses Scott's (2014) Three Pillars framework which provides theoretical boundaries for what exists. By using institutional theory this study is comparable to existing research of the informal economy and enables the identification of significant institutional factors that contribute to decisions to engage with IEA.

Secondly, this chapter introduces the work of Margret Archer and insights from the morphogenetic framework (Archer, 1995; 1996) to provide analytical clarity. These insights provide a framework to better understand how the institutional building blocks are arranged for service sector actors in consideration of agency and the temporal but relational power of institutions. The morphogenetic framework allows this study to explore and understand how, when and why actors adopt informal economic practices at the micro-level.

3.2 An Institutional Approach

Institutional theory focuses on understanding how structures (e.g. norms, rules and beliefs) are created, transmitted, adopted, and modified over time and space (Scott, 2005). More specifically, institutional theory focuses on understanding the aspects of social structure which are deeply embedded and resilient, by considering which processes lead these structures to become authoritative guidance for social behaviour (Scott, 2005).

An early conception of institutions (old institutionalism) was built through a series of empirically based studies in the 1940s and 50s (Scott, 2014). These early studies linked institutions and the behaviour of organizations (for example see Selznick, 1948, 1949 on the Tennessee Valley Authority). Selznick's (1949) study focused on understanding how institutions work to integrate organisations in society through "universalistic rules, contracts and authority" (Ocasio and Thornton, 2008, p. 100). Institutionalisation through this approach is considered to be a process which happens to the organization over time by infusing the organization with value beyond its technical requirements (Selznick, 1957). Institutionalisation was seen as the result of individual organisations adapting to their "local communities and internal members" (Lowndes and Roberts, 2013, p. 23) by focusing on the regulative and normative responses to local interests and power relations. Old institutionalism is political in its understanding of organizational strategy and focuses on conflicts of interest and social commitments (DiMaggio and Powell, 1991). Organisations are considered as both the products of institutionalisation and the location where the process occurs (DiMaggio and Powell, 1991).

The early approach to institutions is opposed to the neo-institutional position that depicts institutionalisation as being a process which happens in the external and societal environment of the organization (Lowndes and Roberts, 2013; Scott, 2014). The neo-institutional approach is credited to the work of institutional theorists such as Berger and Luckmann (1991), DiMaggio and Powell (1983) and Meyer and Rowan (1977) who argued that organisations must tend to their wider institutional environment to define their social fitness and legitimacy. Although both approaches to institutional theory (neo and old) maintain the importance of understanding the relationship between an organization and its environment they both identify different means of constraint and cognition. Neo-institutionalists outline the importance of independent symbolic elements which shape organizational behaviour such as schemas, standard assumptions, scripts for action and the legitimacy processes involved (Scott, 2004). Whereas old institutionalists emphasise the importance of vested interests resulting from political trade-offs, and alliances with values, norms and attitudes as the key forms of cognition (Dimaggio and Powell, 1991).

The neo-institutional approach results in the assertion that culture is an equal and important part of the institutionalisation process, alongside the more structural factors such as formal rules. The neo-institutional view adopts a sociological approach to institutions (Dimaggio and Powell, 1991) as opposed to the more political views of early institutional studies. By considering culture as an external influence, an enlarged understanding of the various institutional factors could be developed which built upon the earlier work of Selznick who focused on regulative and normative factors (Scott, 2004). The development of this wider neo-institutional view led to a focus on "isomorphism, routine, and the taken-for-granted aspects of human behaviour" (Cloutier and Langley, 2013, p. 360). In this neo-institutional approach, formal

organisations, individuals and nation-states are all perceived to be actors who are considered to be dependent on institutional structures (Meyer, 2009).

The neo-institutional lens has become the primary approach used to understand economic informality (Ram et al., 2019) as both cultural acceptance and legitimacy is an important factor. When applied to the study of the informal economy institutions are seen as being either formal or informal, which “structure political, economic and social interaction” (North, 1991, p. 97). Formal institutions relate to codified government rules and regulations, whereas informal institutions relate to the norms, values and cultural beliefs of society. Existing studies of the informal economy show that institutions, both formal and informal, shape economic activity (Thai and Turkina, 2014). These institutions are built from various social factors with business owners and individual actors choosing to comply with formal or informal institutions for a variety of complex reasons (Uzo and Mair, 2014). For instance, these choices could be based on a rational thought process, or linked to social reasons related to disidentification with the government (Littlewood, Rodgers, et al., 2018) and lack of respect for the legal system (Tyler, 2006).

A widely applied model of neo-institutional theory to the study of informal activity is the Three Pillars framework (Scott, 2014). For example, Ogunsade and Obembe, (2016) in Nigeria; Littlewood, Rodgers and Williams (2018) in South-East Europe and Ram et al., (2019) look at labour law in the UK through this lens. The Three Pillars model is built from Scott’s (2014) definition of institutions as being the “regulative, normative and cultural-cognitive elements that, together with associated activities and resources provide stability and meaning to social life” (ibid p. 56). Each pillar (regulative, normative and cultural-cognitive) brings stability to social life through a distinctive

method of order (Table 3.1) involving logics, a motive for compliance, sources of legitimacy and indicators of presence (Scott, 2003). Institutions from the Three Pillars model provide stabilisation and mean-making properties for actors in relation to the elements in each pillar by providing flexible building blocks which guide and constrain (Scott, 2014).

The Three Pillars approach provides an “omnibus conception of institutions” (Scott, 2003, p. 880) which is credited with bringing order to this neo-institutional view (Greenwood et al., 2008). Previously institutions had been studied by varying disciplines ranging from sociology, political science, psychology and economics (Scott, 2003) meaning that the concept of an institution became problematic. as institutions meant everything and anything (Ostrom, 2007) from a broad cultural model, to the state and laws it imposes (e.g. Greenwood et al., 2008).

Table 3.1 The Three Pillars of Institutions

	REGULATIVE	NORMATIVE	CULTURAL-COGNITIVE
BASIS OF COMPLIANCE	Expedience	Social obligation	Taken-for-grantedness shared understanding
MECHANISM	Coercive	Normative	Mimetic
LOGIC	Instrumentally	Appropriateness	Orthodoxy
INDICATORS	Rules, laws, sanctions	Certification, accreditation	Common beliefs, shared logics of action, isomorphism
AFFECT	Fear and guilt/innocence	Shame and honour	Certainty / confusion
BASIS OF LEGITIMACY	Legally sanctioned	Morally governed	Comprehensible, recognisable, culturally supported

Source: Scott (2014, p. 60)

Each pillar has historically attracted different groups of scholars from different disciplines. For instance, the regulative pillar is generally attended to by political scientists and institutional economists, (i.e. North, 1990 and Williamson, 2000). The normative pillar is attended to by social psychologists and sociologists such as Selznick (1957) and Parsons (1960) who focus on norms, roles and internalised social obligations. Finally, the cultural-cognitive pillar focuses on the taken for granted beliefs and shared understandings which are viewed as underpinning social order, with authors such as Berger and Luckmann (1967; 1991), Dimaggio and Powell (1983) and Meyer and Scott (1983) focusing on this area.

Regardless of the pillar focused upon, institutions affect day-to-day activity in all manner of ways and in a variety of different settings such as social, economic and political environments (Lowndes and Roberts, 2013). They provide the actor or organization with a basis for legitimacy, which may be legally, morally or culturally supported. When studying informal activity, legitimacy is an important component of any explanation as it can provide actors with the belief that their chosen course of action is appropriate (Berger and Luckmann, 1967; Tost, 2011) and acceptable within their contextual environment (Webb et al., 2009). Suchman's (1995) definition of legitimacy is adopted within this study:

A generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions (Suchman, 1995, p. 574)

Through the Three Pillars lens, legitimacy works through different isomorphic mechanisms, namely coercive, normative and mimetic pressures and processes (Lawrence et al., 2001). These isomorphic mechanisms are derived from the work of

DiMaggio and Powell (1983) who searched for explanations of similarities which “constitute a recognised area of institutional life” (DiMaggio and Powell, 1983, p. 148). These isomorphic processes may not only constrain organisations but can also pressure one entity to resemble another when faced with the same conditions (DiMaggio and Powell, 1983), a process which can help to define an organisation’s overall social and economic fitness. The economic behaviour of actors is considered to be representative of the influence of formal and informal institutions; more specifically the regulative, normative and cultural-cognitive factors and the legitimacy they can gain by following them (Williams, 2018).

The application of these Three Pillars to the study of the informal economy sees the regulative pillar representing the formal institutions, whereas informal institutions represent the normative and cultural-cognitive pillars. These Three Pillars impose the boundaries of what is considered legitimate and acceptable through the use of regulative laws, social obligations and shared understandings (Scott, 2014), which both constrain and enable action through various logics or mechanisms and can be a basis for compliance. The Three Pillars and their association with this study are discussed next, beginning with the formal institutions and the regulative pillar.

3.2.1 Formal Institutions

The formal institutions and the regulative pillar are associated with the mandatory laws and regulations with which a business or actor must comply. The regulative pillar focuses on understanding how the rules, laws and sanctions of the formal institutions work to “constrain and regularise behaviour” (Scott, 2014, p. 60). Any failure or imperfection in these formal rules, regulations or their enforcement by the relevant authorities can lead to an increase of informal activity (Section 2.4.1). When considering the role of formal institutions play concerning future informal activity a

study must seek to understand how regulations have failed to appropriately regulate economic activity.

Formal institutions are built from the regulatory pillar and are considered to be a macro-level influence, with mandatory regulations created, legally sanctioned and imposed on the individual by the government at the highest level. North (1991) emphasises that this formalised rule-setting and the methods of enforcement are part of a control system where the actor compares the severity of the punishment against to the rewards that can be gained through non-compliance. Coercion is therefore often considered as the primary form of control within this regulatory framework, where businesses are pressured to conform through threats that non-compliance will be met with legal action by governments who introduce direct policies which focus on increasing deterrence.

The instrumental logic that operates within the regulative pillar comes from the creation of laws and the belief system behind them (Scott, 2014). This instrumental logic is based on the idea that laws are created to progress specific interests with others conforming because they want the rewards associated with compliance or wish to avoid the penalties of non-compliance. In some cases, a penalty-based approach has been identified as a contributing factor to increasing informal activity (Williams, Nadin, and Rodgers, 2012) as individuals voluntarily leave the formal economy due to the increased bureaucratic burden and associated costs of compliance (De Soto, 1989).

The key to the success of the formal institutions when considering economic activity is the ability of the institution to not only establish rules, but also to enforce and check

conformity. Failures to establish and enforce rules can result in deviant behaviour such as IEA. Actors, societies, economic regions or whole countries often make informal adjustments by turning to informal institutions to guide behaviour; competing societal norms, values and cultural beliefs may be used to govern their economic activity (Ireland and Webb, 2015). As outlined in the literature review (Section 2.4.1), there are four ways in which formal institutions can fail or imperfectly govern the economic market (Williams, 2019), misallocations and inefficiencies; voids and weaknesses; powerlessness, and finally, instability and uncertainty, which can be associated with increases in non-compliant economic behaviour. These regulatory failures and imperfections are discussed in detail next beginning with formal institutional misallocations and inefficiencies.

Formal Institutional Misallocations and Inefficiencies

Formal institutional misallocations and inefficiencies can be the result of government corruption and/or a lack of government modernisation. These resource misallocations and inefficiencies can manifest in several ways which increase the attractiveness of the informal economy (Williams, 2018). For instance, governments may lack redistributive justice (Williams, 2019) with actors feeling they do not get the goods or services they deserve considering the government contributions that they make through tax and social security payments (Kim, 2002). This is especially relevant when it is believed that public funds are wasted (Molero and Pujol, 2012) by being spent on causes which the actor is unsympathetic to such as war (McGee et al., 2012). There may also be a lack of procedural fairness and justice (Walsh, 2012), whereby actors may feel they are not treated equitably when considering others in the same government system, for a variety of reasons (McGee et al., 2012). Alternatively,

individual actors may feel that the government does not treat them with respect or impartiality, which undermines the government's legitimacy (Murphy, 2005).

The perception of government corruption can also be one of the most significant incentives for the non-declaration of income (Friedman et al., 2000), whereby, individual actors believe that their tax money goes to corrupt politicians. Corruption is a significant threat to the legitimacy of the government in charge (Nwabuzor, 2005). For instance, a government which is seen to be maximising and protecting the economic needs of elites can lose legitimacy (Acemoglu and Robinson, 2012; Ireland and Webb, 2015). Government corruption can also be seen when government officials use public office for private gain (Kaufmann, 1997). This may happen more frequently in less developed countries when officials demand bribes or payments for services (Williams, 2019). Alternatively, this may be linked to more developed countries such as England, with government officials overclaiming business expenses when in publicly funded roles, which is linked to an increased overall perception of corruption.

State capture (Williams, 2019) or institutional subversion (Slinko et al., 2004) could also be considered as an issue when powerful groups are believed to influence government policies to benefit themselves. For example, large organisations may use illicit or non-transparent methods to leverage or persuade the government to enforce high registration costs to control entry to a market. These costs then can act as a barrier for smaller firms who must then adopt non-compliant practices to avoid costly registration (De Soto, 1989). The increase in legislation can also mean an actor chooses economic informality to avoid the bureaucratic burden associated with compliance (Friedman et al., 2000). Finally, a lack of trust in other citizens may also contribute to informal activity due to the belief that others are using personal connections and social

capital to avoid formal regulation which is otherwise mandatory (Littlewood, Rodgers, et al., 2018). For instance *blat* networks in Russia (Ledeneva, 1998; Rodgers et al., 2019) or *pulling strings* in the United Kingdom (Smith, Huang, Harb, and Torres, 2012).

As a result of resource misallocations, inefficiencies and the perception of corruption, individuals may then turn to informal institutions to regulate and organise their activities. By turning to these informal institutions, individuals can avoid corruption (Ireland and Webb, 2015; Johnson et al., 2000) or other perceived institutional misallocations or inefficiencies which have resulted in a loss of legitimacy by the formal rules and organisations which uphold them. This loss of legitimacy directly decreases trust and respect in the government (Tyler, 2006) which results in a break in the social contract between society and the regulatory authorities which increases of the use of informal economic practices (Littlewood, Rodgers, et al., 2018).

Formal Institutional Voids and Weaknesses

Formal institutions may also fail to appropriately govern economic activity through a lack of regulation as in the political economy approach (Section 2.3.2), where the government fails to carry out the role society expects (Mair and Marti, 2009) thus creating an institutional void. These institutional voids may be the result of a lack of government rules in developing countries (Mair and Marti, 2009) or loopholes in existing regulations in more developed economies (Littlewood, Rodgers, et al., 2018). The presence of informal activity does not confirm an institutional void as some actors may choose to operate informally despite strong formal regulation (London et al., 2014) as seen in the neo-liberal view (Section 2.3.3). Institutional voids, therefore, should not be seen as merely empty spaces as they are often areas where there are

tensions between formal and informal institutions which are misaligned, this leads to informal rule built upon an alternative logic of practice, such as the family as a business (Murithi, Vershinina and Rodgers, 2020).

Williams (2019) asserts that the difference between the political economy and neo-liberal approaches to understanding informal activity is primarily about which formal institutional voids and weaknesses generate more informal activity. From these theoretical lenses, institutional voids are seen as either an economic weakness (political economy) or a strength (neo-liberal). For example, formal institutional voids may be a weakness when a lack of government intervention leads to ineffective contract laws, leaving businesses to rely on trust (Ireland and Webb, 2015). This lack of government involvement may also mean the lack of access to formal financial organisations leaving businesses to raise capital through informal networks or practices. Formal financial organisations such as banks may also be less likely to lend at competitive rates when there is weak government rule to enforce contracts (Qian and Strahan, 2007). On the other hand, from the neo-liberal perspective this lack of government involvement may be seen as a strength, as over-regulation can lead to actors opting out of compliance due to the restrictions placed upon them (De Soto, 1989). Any type void and weakness linked to the political economy and neo-liberal approaches can also be considered through an institutional lens.

Formal Institutional Powerlessness

Ireland and Webb (2015) assert that a lack of formal institutional strength and powerlessness can also contribute to an increase in IEA's as the government may lack the ability to enforce formal regulations (Webb et al., 2009), or may not have the power to influence businesses and individuals to adhere to regulation (Williams, 2019). The

lack of institutional strength can be associated with a lack of understanding of the overall institutional context when policymakers design the regulatory framework (Estache and Wren-Lewis, 2009). Any form of government powerlessness or the perception of the inability to enforce rules and regulations allows actors the opportunity to behave informally as the risk of detection is lower (Ireland and Webb, 2015). With an increase in non-compliant economic behaviour encouraging a more casual view of the law (Williams and Windebank, 1998), which results in the increasing acceptability of a broader range of informal and criminal activity. Williams and Kedir (2018) outline that 22% of formal businesses from Europe and Central Asia considered the informal sector as having had a constraining effect on them between 2006 and 2014. In a developing context, Iriyama, Kishore and Talukdar (2016) assert that formal firms can turn to informal action such as bribery to address an informal economic threat. However as Mccann and Bahl (2017) outline there can also be positive consequences of more informal competition, especially in emerging economies where increased market competitiveness can result in new product development by formal firms to differentiate themselves from informal rivals.

Formal Institutional Instability and Uncertainty

Formal institutional instability and uncertainty can also contribute to IEA through the continual change of formal rules and regulations, as seen in some developing countries (Williams and Shahid, 2016). This change can create a “perceived lack of permanency” of the regulations (Williams, 2019, p. 30) which can lead to actors adopting informal practices while formal institutions steady themselves (Ireland and Webb, 2015). Decision-makers such as individual business owners face a unique set of problems when they encounter institutional uncertainty, which can motivate actors to

evade the formal rules (Bylund and McCaffrey, 2017) and rely on norms, values and cultural beliefs as these are often more consistent, reliable and understandable.

Institutional uncertainty can be the result of advancements in technology and socio-cultural changes (Ireland and Webb, 2015). For example, Dobson et al., (2015) assert that digital entrepreneurship can fall into grey areas due to the uncertainty of formal regulations. For instance, Ireland and Webb (2015) discuss how technology advancements allowed Airbnb to facilitate property rentals by businesses and private individuals who in some cases, avoid specific tax and tourism regulations and undercut formal firms. This increase in digital entrepreneurship and style of micro business activity saw changes to formal institutional rules and regulations which aimed at clarifying and setting requirements and standards. For example, the introduction of the Digital Economies Act 2017 and the £1000 trading allowance. Overall, any institutional instability or uncertainty can leave individual actors relying on informal institutions, such as shared norms, values and cultural beliefs to govern their activity due to a lack of understanding of the requirements needed to comply.

3.2.2 Informal Institutions

In contrast to codified rules and regulations of the formal institutions which are related to the regulative pillar, the tacit understandings of informal institutions are aligned with the normative and cultural-cognitive pillars (Williams, 2019). Informal institutions are related to the broader societal norms, values and cultural beliefs. These informal institutions play a prominent role in the adoption of informal activity, as actors often rely on norms, values and cultural beliefs to govern their economic activity – especially in the presence of the regulatory failures and imperfections.

Informal institutions allow the actors involved in non-compliant economic behaviour to remain legitimate and be socially accepted, although they are formally illegitimate

(Webb et al., 2009; Ketchen, Ireland and Webb, 2014; Ram et al., 2017). For example, an actor may adopt informal working practices based on the belief that they are considered to be socially acceptable, which as Woolfson (2007) and Ram, Edwards and Jones (2007) outline may result in workers colluding with employers by accepting envelope wages. Further evidence of the normative and cultural acceptance of informal activity can be seen in other research on the informal economy. For instance, a common question asked is 'how much for cash?' or 'do you want a receipt?' in service-based industries (Williams and Perez, 2014). Other large societal groups are also said to accept cash-in-hand, no receipt or envelope wages as a legitimate means to an end (Williams, 2014b; Williams and Bezeredi, 2018; Woolfson, 2007). Finally, Littlewood, Rodgers and Williams (2018) find significant cultural embeddedness in their study with respondents referring to "Bulgarian mentality", "Croatian mindset" or "Macedonian custom" (p. 12). These examples highlight the causal importance of understanding informal institutions and the cultural acceptance regarding informal activity they may promote.

The informal institutions (both normative and cultural) are seen to operate at the meso-level, which looks at the "communities of practice" (De Castro et al., 2014, p. 76) with which the individual directly interacts; for instance, customers, suppliers and other businesses. These networks provide a system of "community values" (De Castro et al., 2014, p. 77) which directly influence and are influenced by normative and cultural beliefs about informal activity. If the regulative pillar acts as the rules of the game, the normative and cultural pillars provide the actor with an alternative approach of how the game can be played whilst maintaining social and economic fitness (Dimaggio and Powell, 1983). The normative and cultural-cognitive pillars discussed provide those actors who operate by informal institutions with a logic of

action and a basis for compliance and legitimacy. The normative and cultural-cognitive pillars are discussed next.

Normative Pillar

Scott (2014) asserts that the normative systems include both values and norms which regulate activity through the creation of standardised forms of behaviour. Focus within the normative pillar is based on understanding of how normative rules introduce a “prescriptive, evaluative, and obligatory dimension in social life” (Scott, 2014, p. 64). The normative pillar not only provides the goals but also provides appropriate ways to pursue them (ibid). The norms and values of a group can lead to the creation of roles which may vary between members. This process can generate different roles with different aims and rules for gaining legitimacy (Scott, 2014). The logic of appropriateness is used within the normative pillar, which focuses on the actor's consideration of the situation, their social role, and what behaviour is acceptable in a given scenario. The effect of conforming or not conforming to these normative rules can result in feelings of honour or shame amongst a group, with the basis of legitimacy being self-evaluated moral governance. Scott (2014) finally outlines that although normative systems can constrain behaviour, they can also enable, for example normatively informal activity appears to be acceptable and legitimate although it conflicts with regulative rules. By following normative beliefs as opposed to regulative rules a group of agents or an individual actor can achieve what they consider to be important while still being considered as operating both appropriately and legitimately.

Cultural-Cognitive Pillar

The cultural-cognitive side of the informal institutions focuses on individual and shared perceptions of the social world, and places importance on the fact that “symbols, words, signs, gestures have their effect by shaping the meanings we attribute to objects and activities” (Scott (2014) p.67). The cultural realm considers patterns of beliefs, how these beliefs become internalised and how they shape actions. Cultural beliefs may be held by some people and not others and may also be interpreted differently resulting in different courses of action (Scott, 2014). Social roles can be formed as “templates” which emerge for particular actors with specific “scripts for action” (Scott, 2014, p. 69). These templates and scripts promote compliance because any other behaviour is considered to be inconceivable in the current situation. Compliance within this pillar is achieved by excepting norms, such as a “just the way it is” attitude (ibid, p. 70). The logic that confirms cultural behaviour is that of orthodoxy; this can be driven through the ingrained belief that the action is generally accepted, which can then be associated with a mimetic logic of behaviour. This mimetic behaviour can be the result of uncertainty or confusion whereby when faced with an unfamiliar situation the actor may look to model their actions on others and their cognitive reference points from previous interactions. Legitimacy through this pillar is achieved by social conformity and behaving in a recognisable and culturally supported way. A government may seek to introduce education measures to gain voluntary compliance by attempting to change existing norms, values and beliefs of those involved with IEA (Williams, 2018).

Informal institutions are a combination of normative and cultural-cognitive factors which embed informality in practice and can set the social boundaries for those involved (London and Hart, 2004). For example, normative and mimetic logic

(Dimaggio and Powell, 1983) can provide actors with a pressure to conform with existing social norms, as seen in a customer-driven cash-in-hand ethos (Williams, 2006a) or the mimetic behaviour of an actor based on previously established shared understandings or observed practices. Through this understanding informal activity is legitimate due to the social and cultural beliefs of the actors involved, here legitimacy is morally governed and culturally supported. As a policy response, to the informal institutions government policy may use indirect measures such as education to try to change these existing normative beliefs and long-standing cultures or build more respect for legal systems (Tyler, 2006).

In conclusion, the institutional environment is essential when studying informal activity, this understanding has led to the institutional approach becoming the dominant way to understand informal activity (Ram et al., 2019). Formal and informal institutions structure all economic, political, and social activity (North, 1991). These formal and informal institutions can be further broken down and considered as the regulative, normative and cultural-cognitive elements which work to provide stability to social life (Scott, 2014). The application of the Three Pillars approach to this study provides a theoretical framework to understand the various institutional factors and accompanying indicators, mechanisms and logics which influence IEA of actors. For example, IEA may be adopted by an actor due to formal institutional failures such as over-regulation of the economic market which results in the actor turning to a mimetic logic which is derived from long-standing cultural beliefs. Alternatively, an actor may engage with informal activity due to the belief that there is a social obligation through a normative logic, when customers ask, 'how much for cash?'. This study develops a fine-grained account of how the institutional environment works at the micro-level by considering the relational interplay between institutions and agency over time.

3.2.3 Institutional Carriers

Institutional analysis prioritises the understanding of the symbolic and regulatory areas of social life, which can both enable and constrain social behaviour (Scott, 2005). However, as Scott (2014) maintains any study must also consider the activities that produce and reproduce these institutional systems. For instance, norms, values, cultural beliefs and meanings arise from, and are reliant on the interaction of actors to continue to exist, whether they be preserved or modified (Scott, 2014). Scott (2014) considers *carriers* through an institutional lens, casting them as vehicles that move practices, ideas and beliefs through time and space. The messages that are transmitted may be related to the regulative, normative, or cultural-cognitive elements (Scott, 2003) which are aligned with the formal and informal institutions in this study. *Institutional carriers* are used to understand and explain how institutional ideas, rules, regulations, common beliefs, shared logics, or rules of thumb are disseminated. For example, the existence alone of a particular informal belief or formal regulation will have no causal influence on a behaviour unless it is transmitted to and received by an actor. *Institutional carriers* can and often do affect any messages "interpretation and reception" (Scott, 2014, p. 96) which then leads to the potential "stickiness" (ibid, p. 97) of the activity, belief or regulation that these messages promote or dismiss, as a carrier is never neutral (ibid).

Although there is a vast amount of literature around the topic of *institutional carriers* it remains "illusive" (Scott, 2014, p. 95) due to the adoption of this variety of labels used. For example, Scott (2003) outlines various labels used to explain processes and activities which carry institutional messages such as intermediaries, diffusion of innovation, organizational learning, adoption of reforms and organizational evolution. *Institutional carriers* in this study are considered to disseminate the codified

or uncoded “scripts for action” (ibid, p. 69) which work to promote the overall acceptability of non-compliant economic activity, therefore having a positive causal effect on non-compliance.

Although the informal institutional environment guides economic action when formal institutions fail, there is an inadequate understanding of the role different stakeholders play in the promotion and adoption of informal activity. This is a weakness of the existing institutional explanation of informal activity, as it remains largely unknown how messages are transmitted to those involved during their day-to-day activity. For example, the majority of studies on IEA have focused on the interplay between formal and informal institutions (Afreh et al., 2019) which has meant a lack of understanding of how these factors impinge upon and influence individual agency. This process may be through direct and indirect stories or by observing the informal practices of others over time, both of which would increase the overall acceptability and legitimacy of informal activity going forward, which is then adopted by the actor through an instrumental or mimetic logic.

The focus of this study is to develop a micro-level causal account of how the interplay of the institutional environment and agency leads to informal economic practices being adopted by otherwise formally registered service sector businesses. Understanding who acts as an institutional carrier is vital to explain how informal economic behaviour becomes an embedded part of an actor's beliefs and repertoire of practices. For example, extant research maintains that various business friends are often relied upon to help with the decision making of SME business in Britain (Bennett and Robson, 1999) and in some instances stakeholders such as accountants actively promote economic non-compliance (Ram et al., 2019). Identifying who acts as an

institutional carrier helps to explain how the institutional environment such as social norms, values and cultural beliefs regarding the acceptability of informal activity become influential when the actor considers the best course of action in a given situation. For instance, although various formal institutional failures and imperfections increase the actor's reliance on informal institutions to govern their behaviour (Williams 2019), it is also vital to understand who in the individual actors "community of practice" (De Castro, Khavul and Bruton 2014, p. 76) knowingly or unknowingly promotes "community values" (ibid, p. 77) which legitimatise informal activity.

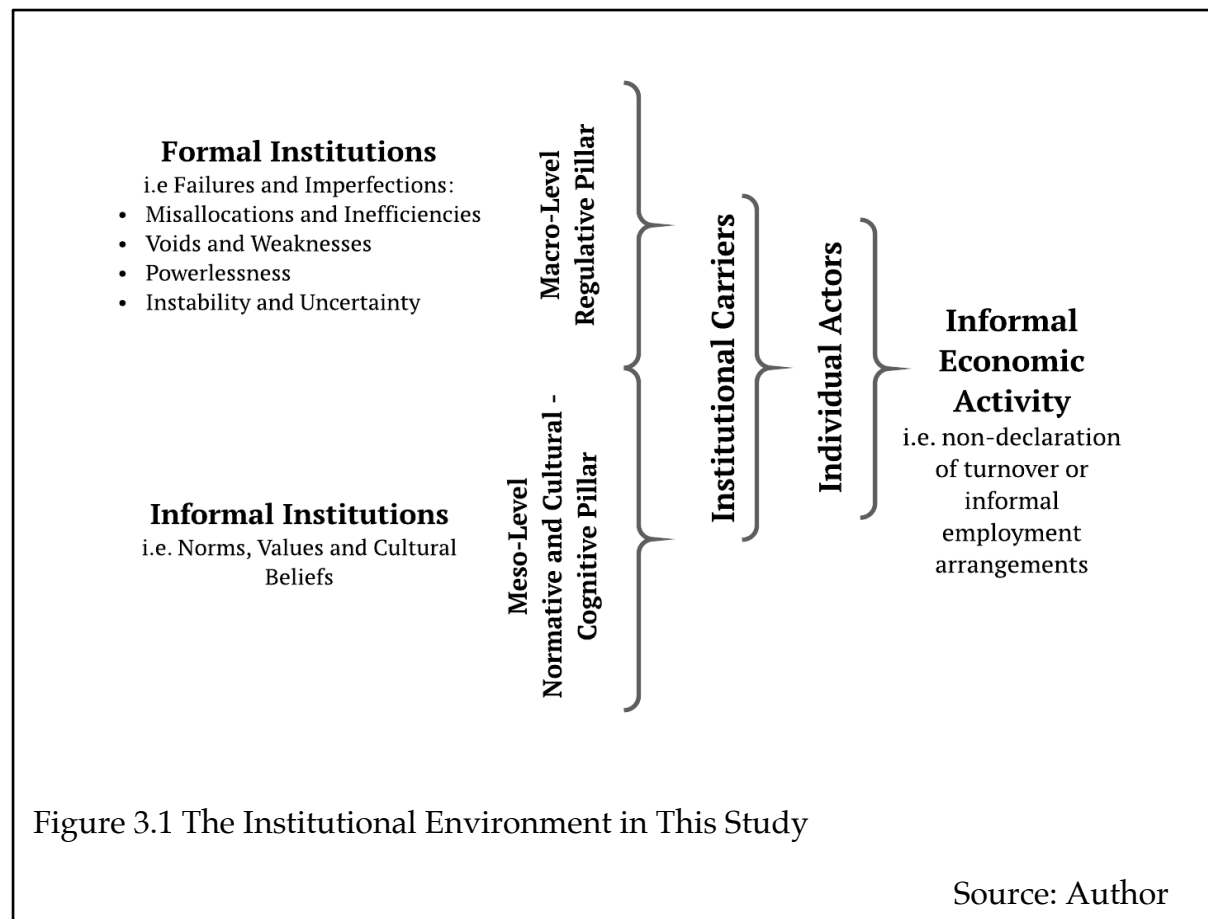
This study also focuses on developing an understanding of how institutional messages regarding the acceptability of informal activity are carried to and experienced by the actors involved in this study, and which specific stakeholders are involved in carrying them.

3.2.4 Section Summary

This study draws upon neo-institutional theory, more specifically the Three Pillars approach (Scott, 2014), to provide the theoretical building blocks to understand the various contextual factors and stakeholders that influence the prevalence of IEA. This study considers the institutional environment to be characterised by three factors (Figure 3.1) which can influence economic practice. Firstly, this institutional environment consists of various formal institutional failures and imperfections as outlined in the regulatory pillar (Section 3.2.1).

Secondly, this environment also consists of informal institutional norms, values and cultural beliefs regarding the acceptability and legitimacy of IEA – which are supported by the normative and cultural-cognitive pillars (Section 3.2.2). Finally, this

institutional arrangement also involves engagement with other existing stakeholders who act as *institutional carriers* (Section 3.2.3). These carriers may promote and advocate economic non-compliance or dismiss regulatory rules; a situation which increases the "stickiness" of the activity or belief (Scott, 2014, p. 97).



Although the institutional environment evidently plays an important role in the prevalence of informal activity, there remains a lack of understanding of individual agency through this institutional approach. Mutch, Delbridge and Ventresca (2006) assert that any application of an institutional approach lacks attention to individual agency due to a focus on higher-order structures. Moreover, Scott (2014) outlines that by its very nature an institutional understanding privileges “continuity and constraint in social structure” (p. 91-92). The lack understanding of individual agency and the

reflexive capabilities of those involved in any activity can be seen in the Three Pillars approach as the different logics of appropriateness can trap the individual into following the most dominant rules, norms or beliefs regardless of individual desires (Lowndes and Roberts, 2013). This lack of agential understanding is problematic when considering the application of institutional theory to the study of informal activity as it fails to explain why different actors choose different actions in the same institutional environment (Littlewood, Rodgers and Williams, 2018; Ram et al., 2019). This has resulted in a theoretical gap in the understanding of how institutions influence informal activity at the micro-level, which is partly due to the failure to adequately understand the temporal and relational nature of institutions and agency over any period of time. This study addresses this theoretical gap in understanding by re-considering institutions as "the temporal-relational contexts of action" (Emirbayer and Mische, 1998, p. 970) through the application of insights from the morphogenetic framework (Archer, 1995). These morphogenetic insights provide this study with the analytical framework to understand how the institutional context works in relation to agency.

3.3 The Morphogenetic Approach

The morphogenetic approach (Archer, 1995) looks at understanding how a particular phenomenon such as IEA came to be (Archer, 2013a) over a period of time. This is achieved by introducing a temporal separation between structure and agency to understand their relationship. The extant studies of informal activity implicitly treat the institutional environment as being invariant over time and therefore fail to adequately understand agency as it often becomes over-reliant on structure for an explanation. The morphogenetic approach, when applied to this study acts as an explanatory lens.

The morphogenetic approach advocates a strong relational commitment to understanding the interplay of structure and agency which works to explain any form of social activity (Mutch et al., 2006). To achieve a morphogenetic account of a social activity such as non-compliant economic activity, Archer (2020) argues that there needs to be an analytical separation between structure, culture and agency as they should be considered as very different properties which act over different timeframes (Archer, 2012). This analytical separation is achieved in the morphogenetic approach through analytical dualism which is based on two principles “(i) structure and culture necessarily pre-date the action(s) that transform them and, (ii) structural and cultural elaboration necessarily post-date those actions” (Archer 2020, p. 141). This is a strong CR commitment which Bhaskar (1998a) also advocates:

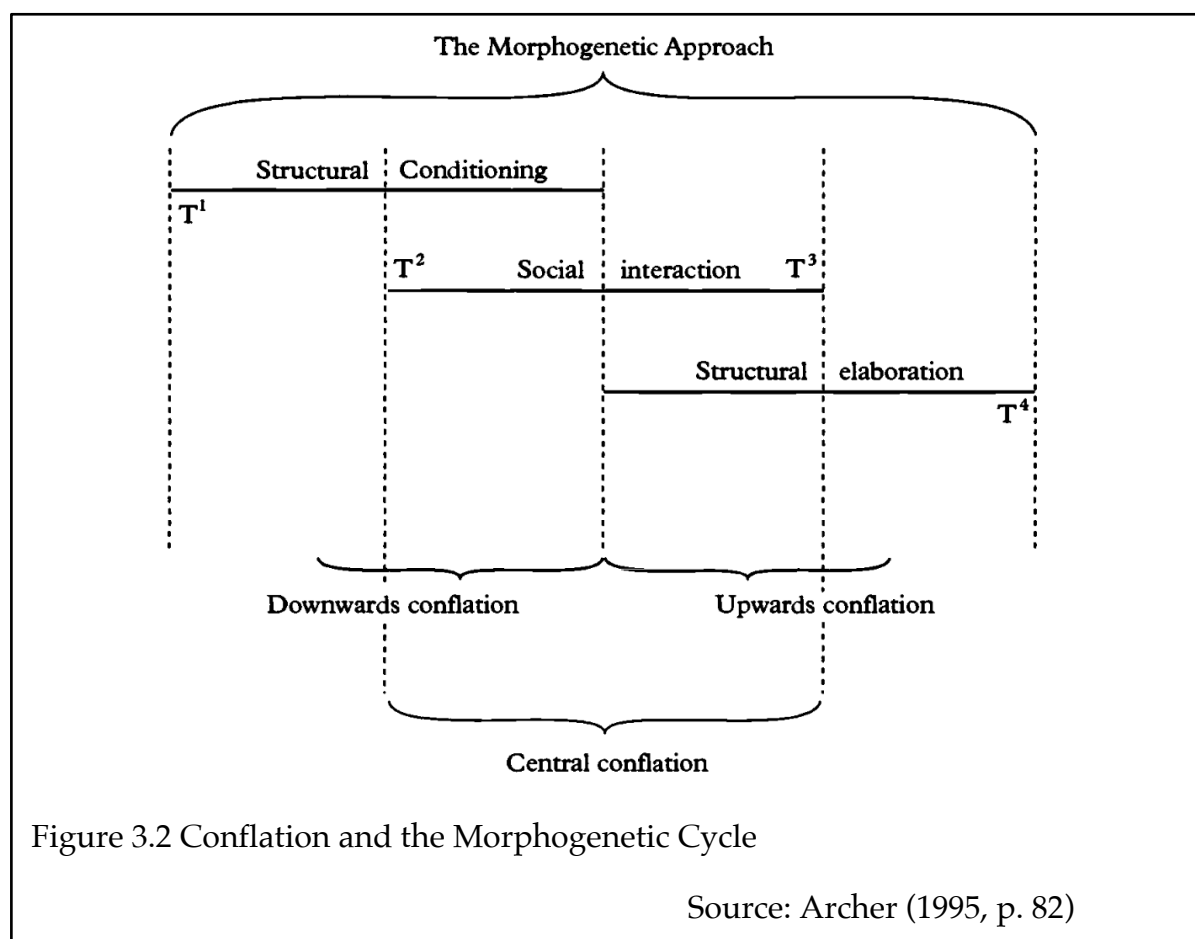
People do not create society. For it always pre-exists them and is a necessary condition for their activity. Rather, society must be regarded as an ensemble of structures, practices and conventions which individuals reproduce and transform, but which would not exist unless they do so (p. 216).

Neither structure nor agency should have priority when explaining a social practice (Bhaskar, 1998c) as it is the interplay of these elements over different periods of time which account for the emergence of a phenomenon such as non-compliant economic behaviour. Archer (2020) argues that all theory concerning social order must come in a “SAC” (p. 8), as Structure, Agency and Culture are always indispensable, although which becomes prioritised is dependent on the phenomenon being researched. In further support of this approach Sayer (2000) maintains that any action must always presuppose existing structures and shared meanings, which only exist due to the purposeful action of the individuals involved over time. For instance, for an actor to adopt informal economic practices, the structures which govern economic and social

behaviour (i.e., formal and informal institutions) must pre-exist to make the action informal, while remaining legitimate to large proportions of society. These pre-existing structures are themselves the result of prior action; therefore, the power of structure and agency must be temporal (Sayer, 2000). Thus as Mutch, Delbridge and Ventresca (2006) assert “society is quite clearly the product of human activity, it is not necessarily the product of those humans ‘here present’”(p. 615). As a result, structure and agency cannot be studied without a method of separating “the parts from the people” (Archer, 1995, p. 167) if a workable understanding of social change and reproduction is to be achieved. This analytical separation helps the researcher to identify and understand “who’s who and who does what, in social transformation” (Archer, 2012, p. 53), and when and why (Archer, 2020; Herepath 2014). Indeed, Archer (1995) outlines that this separation is a necessary part of all social research, as, on the one hand, people would be deluding themselves to think that actors are entirely free to decide their fate. On the other hand, researchers would also be betraying social sciences by providing an account of any phenomena that argues that decisions made by individuals make no difference at all (Archer, 1995). This analytical separation is purely for theoretical purposes as it is accepted that structure, culture and agency are continually at work together in real situations. Although, at times, it is either the structural elements or agency which is the dominant causal influence, while the other is being affected (Newman, 2019).

Analytical dualism is promoted by Archer (1995; 1996; 2020) as an approach to understand how structure and agency work. Analytical dualism is opposed to the view put forward by structuration theory (Giddens, 1984). Through a structuration lens, structures enable and constrain individual activity, they are built from organised rules and resources. Giddens (1984) asserts that these structures are both the “medium

and outcome of the practices they recursively organise” (ibid, p. 25). The key to structuration theory is the “duality of structure” (ibid) which, as Archer (2010) argues results in structure and agency being in a continual central loop. This loop creates an “entanglement” (Archer, 1995, p. 251) as structure and agency are not considered independently of each other as in a *dualism* as they are considered as a *duality*. Archer (1995) argues that this view of structure creates problems for researchers wishing to understand how structures and agency work as they are unable to separate them to understand the system which results in the “paradox of the embedded actor” (Leca and Naccache, 2006, p. 628). Archer (1995; 2010) maintains that there are also other forms of conflation (Figure 3.2) which are built upon the different theoretical positions of individualism or collectivism that prioritise either structure (downward conflation) or agency (upward conflation).



Upwards conflation provides a view of an actor who is unconstrained and free to do as they wish; therefore, no allowance is given to the pre-existing structures. This can be seen in the rational economic approach which sees the individual free to choose the best course of action based on their desires alone. Alternatively, downwards conflation provides a view of passive actors who are shaped by the existing structures and institutions, regardless of their knowledge or desires (Archer, 1995). These understandings can present individuals to be mere “cultural dopes” (Rerup and Powell, 2017, p. 317) acting within institutional constraints (Archer 2002; Fleetwood 2014), alternatively as the masters of their own fate free to do as they wish, or finally as depicted in structuration theory as being clamped in a “conceptual vice” (Archer, 1995, p. 251). These understandings can be seen in the critique of the existing literature on the informal economy which tends to focus on macro-level interactional explanations which fail to provide an adequate explanation of how agency affects structure and *vice versa* as the understandings developed are confined to a “present tense” (Archer, 1995, p 92).

To develop a non-conflating causal account of structure and agency, Archer (1995) introduces the morphogenetic framework (Figure 3.3) as a means to conceptualise the interplay of structure and agency over time. This framework recognises the ontic separation of structure and agency (Leca and Naccache, 2006) while also recognising their relational dependence (Herepath, 2014) and temporal influence on practice (Kitching, 2016). This morphogenetic framework relates to a cycle of social practice which operates through a chain of contextual conditions and social interaction, which then results in structural changes (morphogenesis) or structural maintenance (morphostasis) (Mutch, 2020; Simmonds and Gazley, 2018).

Structural Conditioning

T 1

Social Interaction

T 2

T 3

Structural Elaboration

T 4

Figure 3.3 The Morphogenetic Framework

Source: Archer (2020, p. 142)

This morphogenetic framework relates to a three-stage model of social change (Newman, 2019) which firstly sees the individual actor conditioned by the pre-existing structures (T^1); secondly, agents interact within the structural environment (T^2 - T^3) and finally, dependant on the individuals understanding, power and the projects adopted these pre-existing structures are maintained (morphostasis) or changed (morphogenesis) for the next cycle (T^4).

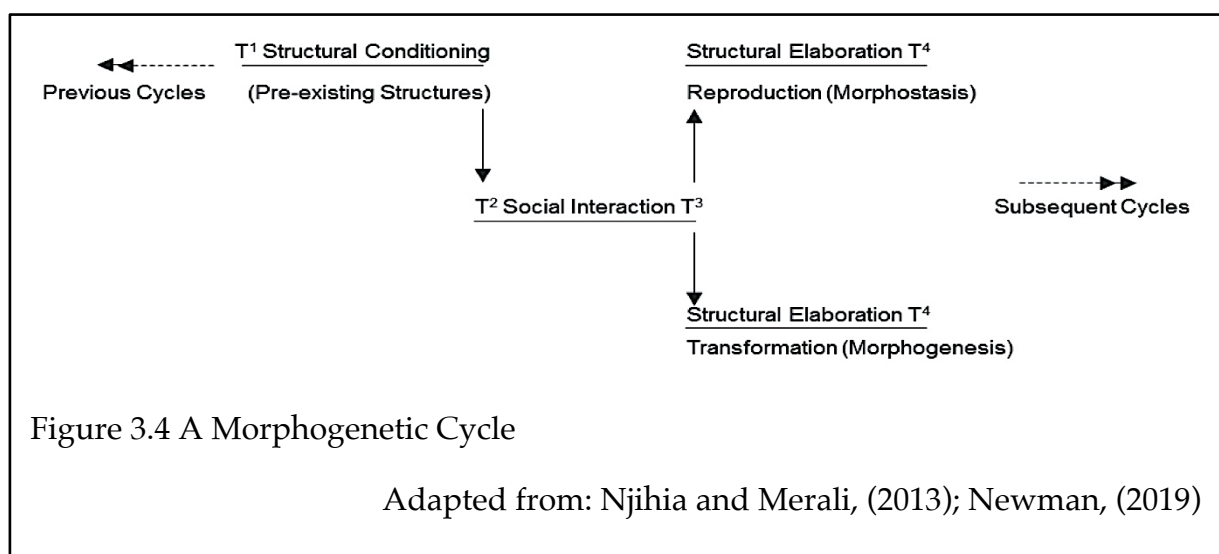
Through the morphogenetic approach a social practice (such as an IEA) is considered to be the emergent result of the interplay of different structures and individual agency over this cycle. This study explains how this cycle unravels over time by working backwards from the observable outcome of informal activity at the *structural elaboration* stage. For instance, this study focuses on how the actors are conditioned to accept the legitimacy of informal activity at the early stages of the cycle, and which institutional factors actualise this belief at the *interaction* stage, whereby the actor considers their prior knowledge and current situation to make decisions. The three stages of the morphogenetic cycle (Figure 3.4), create a “before-during and after

schema” (Newman, 2019, p. 108), which Archer (1995) maintains is responsible for providing:

An account of how the powers of the ‘parts’ condition the projects of ‘people’ - involuntaristically but also non-deterministically, yet none the less with directionality. (p. 201)

Accordingly, Archer (1995, 1996) outlines the need to analytically separate structure, culture and agency (Archer 2010; Archer and Maccarini 2013) to apply the morphogenetic lens successfully as these are different kinds of entities (Archer, 2020).

These three parts act as primary casual factors (Newman, 2019) that exist independently but work together through an emergent process to produce mechanisms which affect outcomes. Within this study, the application of analytical dualism and the separation of “the parts from the people” (Archer, 1995, p. 170) allows the development of a more precise account of how IEA emerges from the institutional environment over time.



The Three Pillars framework provides the *parts* in the context of this study. This institutional environment was previously outlined in Section 3.2 by showing that structure is represented by formal institutions, whereas culture is aligned with informal institutions that represent the more ideational aspects of daily life such as norms, values and cultural beliefs. Hesketh and Fleetwood (2006) support this approach as they maintain that there is only a semantic difference between the terms institution and structure, as institutions are a type of social structure, therefore, these approaches are fully compatible.

Agency from the morphogenetic lens involves “real actions by real people” (Archer, 1995 p. 258) which then leads to institutional change or stability through either morphogenetic or morphostatic cycle. For example, the actors in this study may reproduce prior structural conditions through a mimetic logic, therefore, complete a morphostatic cycle. Alternatively, the actors may modify their previous experience by adopting different practices built upon the prior conditions, therefore, generating a morphogenetic cycle. Furthermore, Archer (1995) outlines that agency must not only be reflective but also purposeful and in general promotive and innovative if it is to be linked with stability and/or change.

The first stage of the morphogenetic cycle whereby the actor is seen as being structurally conditioned is not merely a process of “social hydraulics” (Archer, 1995, p. 249), as this conditioning stage is non-determinant and “compels no one” (ibid). Rather the first stage provides good rationales for a particular action after a period of reflection and evaluation. However, any display of agency in the form of social interaction at the second stage of the cycle can have a causal influence on later generations by providing the structural and cultural situations which they inherit at

the first stage. Similarly, Hays (1994) refers to agency as a process which embraces the belief that although choices are made, they are limited by existing structures which may also offer alternatives. Hays (1994) goes onto define agency as:

Human social action involving choices among the alternatives made available by the enabling features of social structure and made possible by a solid grounding in structural constraints. (p. 65)

This morphogenetic process and individual agency also depend on the actor's relative power in a given situation based on their agential position. Archer (1995) outlines that not all agents are the same, they are differentiated in terms of their active or passive involvement using the terms *corporate* or *primary* agent (Njihia and Merali, 2013) as they participate in transforming the social system. *Corporate agents* represent those who are aware of their vested interests and understand what needs to happen to either maintain or change the current or pre-existing structural and cultural circumstances to achieve these (Archer, 2013b). *Corporate agents* operate in an organised and active way to achieve their goals, and due to their relative power in a given situation make themselves heard and play an active role in structural elaboration. Archer (1995) outlines that these *corporate agents* can shape the context for all actors due to their strategic outlook, although this may not specifically be as intended as their actions can result in unintended consequences. *Primary agents*, on the other hand, play a more passive role as they struggle to be heard and can lack in organizational skill or a defined strategy. As a result of the lack of strategy and organisation, *primary agents* operate within a context defined by the *corporate agents*, who then act to further engrain a normative belief, for example. This activity results in the further distance between the *primary agent* and their "promotive interests" (Archer, 1995, p. 260). Horrocks (2009) points out that this does not mean that people who are *primary agents*

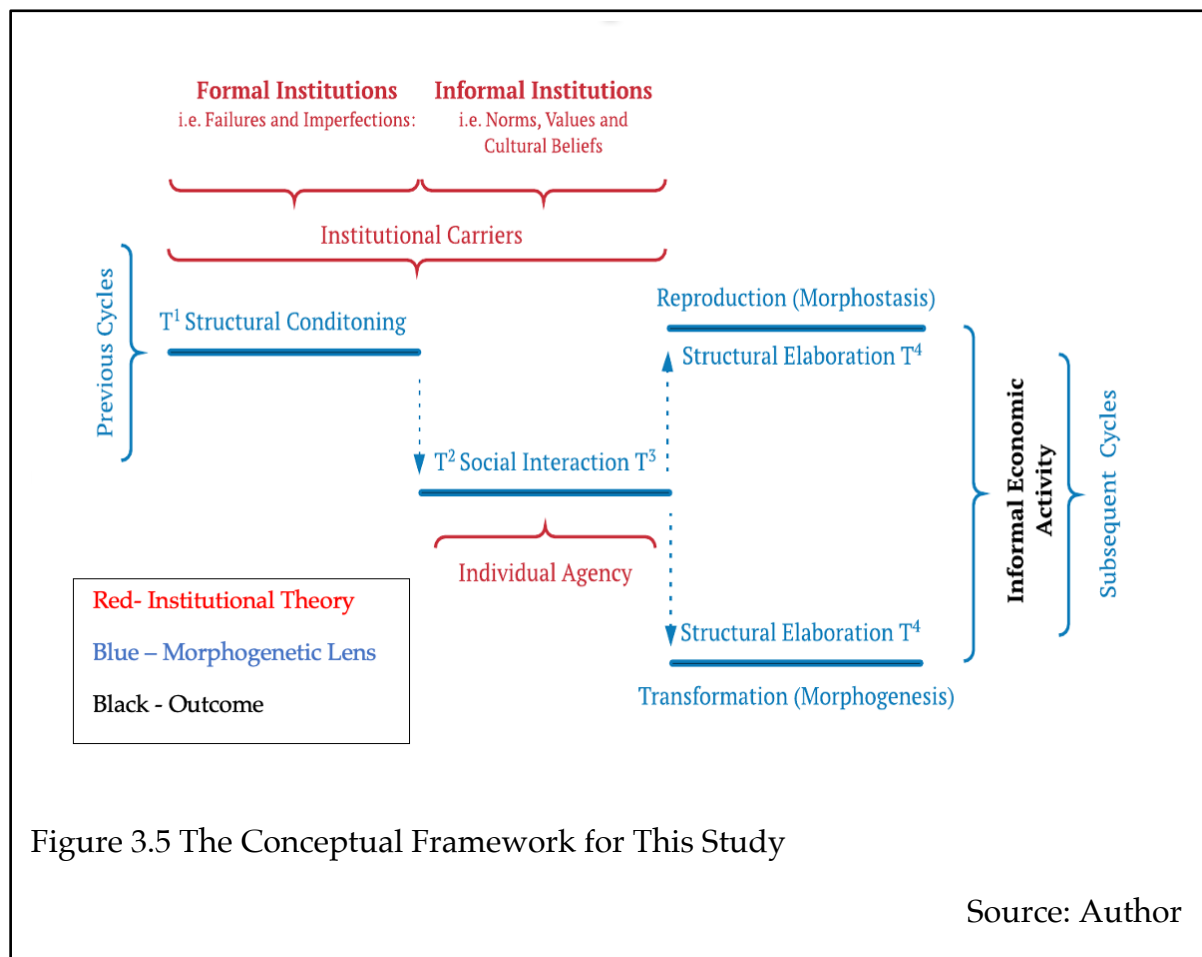
in one situation might not be *corporate agents* in another, as agency categories are dynamic.

Within this study, *institutional carriers* have been introduced (Section 3.2.3) as an essential factor that needs explaining when attempting to develop a micro-level understanding of informal activity. These *institutional carriers* have been outlined as a method of conferring and carrying messages regarding the acceptability of informal economic practices to various actors at the micro-level during their everyday activity. These *institutional carriers* can actively promote the norms, values and cultural beliefs which underpin the legitimacy and acceptability of informal economic practices and therefore promote further adoption.

This study considers *institutional carriers* in alignment with the morphogenetic understanding of *corporate* and *primary agents*. This approach allows a more precise understanding of how institutional ideas are transmitted (Scott, 2003) and which collectives have more power regarding the legitimisation of informal economic practices. The process of institutional transmission is dependent on the individual's role as a *corporate* or *primary agent* due to the relational power and knowledge they possess in specific situations. In the discussion of the findings from this study *institutional carriers* have been highlighted at each specific part of the morphogenetic cycle to explain who holds the power to influence and change the temporal situation and contextual conditions through their *corporate* or *primary* status.

3.3.1 Section Summary

Informal economic practices and decisions are considered as being the emergent result of the interplay of structure and agency over time, formed “through social combination” (Archer, 1995, p. 51). This process is depicted in Figure 3.5, which highlights the relationship between the Three Pillars (Scott, 2014) and morphogenetic (Archer, 1995;1996) insights used within this study. This analytical understanding involves breaking up social practice into three distinct but interrelated phases “emergence-interplay-outcome” (Archer, 1995, p.168), which form the morphogenetic framework.



The three stages of the morphogenetic cycle provide this study with three distinct areas of interest, namely; *structural conditioning*, *social interaction* and *structural*

elaboration. These three stages allow the temporal separation of structure and agency while still recognising their relational dependence. It is argued that this approach is needed to understand how the interplay of structure and agency work in a non-conflating way to generate informal activity.

Application of the Conceptual Framework

The application of the conceptual framework outlined involves retroductive logic by working backwards from the observable social practice at the T^4 or *structural elaboration* stage of the cycle. Specifically, focusing on exploring how IEA emerges from the interaction of the institutional environment and agency over time, which consists of two stages. Firstly, exploring the interaction of the structural and cultural entities (such as formal and informal institutions) at the micro-level which pre-exist individual choice to understand how they influence, impinge and therefore *structurally condition* (T^1 - T^2) actors' future activity. Secondly, exploring the situational conditions at the *interaction stage* (T^2 - T^3) which the actor faces during their day-to-day business to understand how IEA becomes the preferred and dominant situational logic. Any display of agency at the *interaction* stage is constructed in relation to the individuals subjective understanding of the pre-existing institutional environment alongside a consideration of the contextual conditions which they currently face. The choices the actor makes may involve a reproduction (morphostatic) or transformation (morphogenetic) of the pre-existing environment the actor faced at the first stage of the cycle, namely *structural conditioning* (T^4).

Overall, the morphogenetic lens provides the analytical scaffolding which is needed for this study to develop a more precise explanation of how the interplay of formal and informal institutional factors and individual agency results in non-compliant

economic activity over a period. The explicit inclusion of time is a distinctive feature of the morphogenetic approach. This conceptual model allows this study to complement the existing understanding of IEA by developing a holistic understanding of IEA at the micro-level which fully considers the institutional environment and agency beyond the existing interactional analysis.

3.4 Chapter Summary

While the literature review looked to problematise the current understanding of informal activity by highlighting the gaps in knowledge, the focus of this chapter has been to provide this study with a conceptual solution through the development of a framework. By applying this framework, a more precise causal explanation of the interplay of structure and agency in relation to IEA is enabled. More precisely, how, when and why institutional factors impinge upon and influence the IEA of actors. The next chapter introduces Critical Realism as the philosophical basis for this study, outlines the qualitative case study approach and other methodological tools chosen to collect, analyse and validate findings, discussions and conclusions.

Chapter 4 - Research Methodology

4.1 Introduction

This chapter provides an understanding of the methodological approach taken to address the research aims and objectives in this study. Research methodology is "a combination of techniques used to inquire into a specific situation" (Easterby-Smith, Thorpe and Jackson, 2015, p. 47). The philosophical position, data collection and analysis techniques used are set out by the researcher to demonstrate the validity of the research. This allows readers to fully understand the choices made, and the underpinning philosophical position which supports the conceptual framework introduced in the previous chapter. This process allows the outcomes to be taken seriously (Crotty, 1998).

This research has adopted an emergent qualitative case study approach based on a Critical Realist (CR) philosophical position. Maxwell (2013) outlines that qualitative studies do not have a specified starting point or proceed through a pre-established or set path. Although the presentation of this chapter is linear, the actual process and development of research methods was iterative, involving continual reflection and modification, resulting in an emergent research design. This chapter begins with a discussion on research philosophy by outlining the relationship between objectivist and subjectivist positions in relation to the CR philosophy adopted.

4.2 Philosophical Position

Debates about research philosophy are built around two key points; ontology and epistemology (Easterby-Smith, Thorpe, and Jackson, 2015; Mason, 2018). Ontology is concerned with what exists and the nature of reality, and therefore affects what can

be known (Blaikie, 2007; Easterby-Smith et al., 2015; Guba and Lincoln, 1994). Epistemology addresses assumptions about knowledge, the theory of how such knowledge comes to be and what kind of knowledge is possible (Blaikie and Priest, 2019; Easterby-Smith et al., 2015; Saunders et al., 2016). Ontological and epistemological positions framed together are better understood by the term research paradigm (Blaikie and Priest, 2019). The research paradigm allows the author to understand which types of questions are possible to answer, which methods, techniques and research relationships are appropriate (Bryman, 1988), and finally, how the results should be interpreted (Crotty, 2014). Understanding these philosophical positions also allows the researcher to generate a more creative solution (Easterby-Smith, Thorpe and Jackson, 2015). Saunders, Lewis and Thornhill, (2016) outline the ontological and epistemological positions that can be taken are on a spectrum of two polar opposites, these being objectivism which is typified by positivism, and subjectivism which is typified by interpretivism or constructivism (Blaikie, 2007; 2010). This study adopts an overall CR philosophical position which uses an objectivist ontological and subjectivist epistemological position.

4.2.1 A Critical Realist Study

As a philosophical position CR is a relatively new approach considering the foundation of positivism or a *positive science* can be dated back to the work of Francis Bacon (1561-1662) and Auguste Comte (around 1830). More recently positivism (*logical positivism*) is associated with the early twentieth century Vienna Circle (Crotty, 1998; Saunders, Lewis and Thornhill, 2016) with the later critiques of this approach through the development of *critical rationalism* (Popper, 1959). Critical Realism is most commonly associated with the 1975 work of Roy Bhaskar and his book *A Realist Theory of Science* which is inspired by the earlier 1960-70's work of Rom Harre

(Blaikie and Priest, 2019). Archer et al. (1998) notes that the work on CR is by no way limited to Bhaskar although he is credited as being one of the founders.

The CR position asserts that there is a real (objective) world that exists independent of our knowledge (Sayer 2000; O'Mahoney and Vincent, 2014) while maintaining that the world consists of subjective and everchanging individual beliefs (O'Mahoney and Vincent, 2014; Bhaskar, 2017). This ontological and epistemological combination provides an attractive proposition considering that adopting either a subjective or objective approach can provide an over-simplified understanding of any social phenomenon (Denscombe, 2017). This oversimplified understanding is an area to which CR seeks to address (Vincent and O'Mahoney, 2018) which is necessary in this study to fully explain how institutions and agency work in relation to IEA. CR has gained popularity in studies across different disciplines and topics (Fletcher, 2017), for instance CR is used in the studies of organisations and management (Ackroyd and Fleetwood, 2004); business and ethnic minority entrepreneurs (Ram et al., 2013); entrepreneurship (Leca and Naccache, 2006); marketing (Easton, 2010; Simmonds and Gazley, 2018) sociology (Sayer, 2000); social research (Fletcher, 2017) and health (McEvoy and Richards, 2003; Bhaskar and Danermark, 2006).

Critical Realism prioritises ontology over epistemology whilst maintaining a distinction between what exists and how we look for it. This argument is based on the premise that any reduction of what exists (ontology) to the theory of knowledge (epistemology) will provide an inadequate explanation which fails to capture the underlying generative structures producing empirical observations (Simmonds and Gazley, 2018). Bhaskar (1998b) outlines this basic realist premise through his differentiation of knowledge into transitive and intransitive dimensions. The

transitive dimension is the location of our theories of the world (epistemology), and the intransitive dimension is the location of the world independent to our study (ontology). Sayer (2000) supports this differentiation by stating that when our theories of the world (transitive dimension) change, there is no reason to believe that the world (intransitive dimension) which they explain has changed at all.

From this CR perspective, both the objective and subjective traditions conflate reality with experience, either through the positivist search for objective fact or through the subjective interpretation of “narratives, stories and discourses” that respondents report (O’Mahoney and Vincent, 2014, p. 5). This is defined as an epistemic fallacy which Bhaskar (2008) asserts is the reduction of ontological questions such as what exists to epistemological ones about how we can know what we know. The specific positions that CR adopts for ontology and epistemology in terms of the subjective and objective spectrum are discussed next.

Subjectivist Position

Subjectivism maintains that there is no single real-world to be known, as social reality is constructed from the beliefs, perceptions and actions of actors (Saunders, Lewis and Thornhill, 2016). Each actor experiences life differently, and therefore no one reality or ‘gods eye view’ can be taken as from the objectivist perspective. From this subjective position, it can be asserted that all facts are subjective to the individual as they are either created or viewed by them alone. The subjectivist classification is typically associated with interpretivism (O’Mahoney and Vincent, 2014). The founders of interpretivism looked to establish “an objective science of the subjective” (Blaikie, 2011 p. 99) and focus on the understanding of patterns in social life and the lived experience (Silverman, 2020). Interpretivism seeks to understand the complexity

of the world, and values individual stories and contexts to provide a finer-grained understanding. Through the interpretivist lens, reality is socially constructed, and therefore subjective understandings are compiled to form models of typical meanings. These models are then used to provide a causal explanation of this socially constructed reality (Bryman and Bell, 2015). Any causal explanation founded on interpretivism is based on a belief that “reality is what people say it is” (O'Mahoney and Vincent, 2014, p. 5). As a result the interpretivist stance presents a one-dimensional account limited to the lay description of the individuals involved; Bhaskar (2008) argues that reality is more than what is experienced by the respondents and therefore accepting a mere interpretation of it may be misleading.

Subjectively CR adopts a relativist epistemology. This approach allows an understanding that lay accounts are not only socially constructed, but they are also historically situated, and a product of prior social conditioning and time (Archer, 1995) which may be unknown to the respondent. This relativist position is in contrast to interpretivism, which maintains that any stories, discourses or narratives provided by respondents must be taken at face value. As a result of the relativist position adopted within this research it is accepted that the stories, discourses or narratives of the respondent have to be understood. These relative experiences and what can be seen or heard from these lay accounts are only one layer of reality (Bhaskar, 2008). This relativist position forms a defining feature of CR and its stratified ontology (Sayer, 2010), which is in contrast to flat ontologies that equate reality with either what can be seen and measured or alternatively assume that reality is what respondents say it is. This relativist approach allowed this study to access individual actors' experience through the use of semi-structured interviews, with the caveat that this data must be

understood to represent merely a description of the field of study at the empirical level, which is generated by underlying factors.

Objectivist Position - Stratification

Objectivism maintains that there is a real-world that exists independently to the researcher. The existence of this real world is generally associated with quantitative studies and incorporates beliefs from the natural sciences (Saunders et al., 2016). The objectivist position is supported by what Blaikie (2007) defines as a shallow realist ontology or empiricist epistemology which are founded on empirical realism (Bhaskar, 1998b). From a paradigm perspective, objectivism aligns with a positivist approach and a deductive research strategy, using quantitative methods that prioritise observable facts and figures (Denscombe, 2017) to produce generalisable causal deductions. However, this does not allow any explanation that is not within the premises initially set (Danermark et al., 2002). Through a strict positivist lens there is one true reality, and through scientific methods, observable and measured facts are used to provide a value-free causal explanation (Saunders et al., 2016; Silverman, 2020). This positivist approach advocates the ability of the researcher to maintain an objective stance.

The focus on empirical facts in the positivist tradition is critiqued by (Bhaskar, 1998c) as he discusses that it is not merely the job of science to study what we can already see empirically. Indeed, from a CR position the focus should be on progressing knowledge by studying the mechanisms that operate in deeper ontological layers of reality that create empirical observations (Bhaskar, 1998c). While any observation can make us more confident of existence, existence does not depend on our observation (Sayer, 2000). These positivist and deductive research strategies are rejected as it

would limit this study to producing another account of observable facts and a successionist account of the causal relationships.

The literature review has highlighted that the use of quantitative analysis through direct and indirect methods has allowed for the statistical footprint of informal economy to be established. This statistical mapping of informal activity has undoubtedly paved the way forward for future research, although it currently means that there is a lack of depth to the discussion around this type of economic activity which now requires more than “merely empirical mapping” (Godfrey, 2015, p. 11). This study argues that to move these conversations about informal activity forward, a qualitative approach needs to be adopted built from a CR philosophical position to look beyond the existing interactional understanding.

Through a CR lens, reality is formed by events that are not necessarily experienced or seen (Bhaskar, 1998b). This reality is formed by causal mechanisms that may be happening beyond our cognition and understanding. Within this study the CR position allowed a change in focus from superficial empirical observations to a philosophically justified search for the underlying causal factors that generate informal activity. This approach is supported by Blaikie (2011), who asserts that the aim of science should be to discover these hidden mechanisms; to just accept the interpretations of the respondents’ socially constructed versions of reality would produce a thin interpretation of what is happening. For example, the correlation of attitudinal responses to tax morale with higher levels of informal activity inadequately explains why informal activity is considered legitimate (Section 2.5), and how any identified formal institutional failures specifically work to create an institutional miss-alignment. To accommodate the search for causal mechanisms

beyond an observable reality CR, adopts a stratified or depth ontology (Figure 4.1) which is formed of three layers, the empirical, the actual and the real (Bhaskar, 2008; Sayer, 2000).

The Empirical layer covers our experience and what we perceive to have happened, incorporating our sensory experience and overall perception of the situation. Within the stratified ontology these relative experiences and what can be seen or heard from lay accounts of individuals forms only one layer of reality (Bhaskar, 2008).

	The Real	The Actual	The Empirical
Mechanisms	✓		
Event	✓	✓	
Experiences	✓	✓	✓

Figure 4.1 Depth Realist Position

Adapted From: Bhaskar (2008, p. 2)

The Actual layer refers to events that may or may not be observed which operate as the link between mechanisms in the real layer and empirical experiences. Danermark, et al., (2002) assert that what happens in the world is not the same as the empirical observations we make, and it is the *actual* domain where the mechanisms identified in The Real layer operate and cause the empirical observations. Finally, The Real layer is the location of the mechanisms and structures that generate observable events (O'Mahoney and Vincent, 2014). The Real layer contains what exists, this could be

either a natural or a social existence and *is* regardless of any understanding we may have of it. The Real layer is where entities, structures, objects and their powers lay, the goal for CR is to try to understand and identify causal relationships between these factors (Sayer, 2000). To be clear CR advocates the ontological belief of the existence of a real world consisting of both structure and agency, which research can only ever have an imperfect and fallible understanding due to society being an open system, as “nothing can prevent the intrusion of contingencies” (Archer, 2020, p. 8). This world can only ever be understood in existing discourses and description therefore CR accepts “epistemic relativism” (Sayer 2000, p. 47) whilst at the same time rejecting “judgemental relativism” (ibid) as CR also advocates the view that some explanations and accounts of social phenomenon are better than others – and therefore more practically adequate (Mutch et al., 2006; Sayer, 2000).

Causation and Emergent Mechanisms

One of the main distinguishing features of CR is its view of causation (Blaikie and Priest, 2019) which aligns with the stratified ontological position. To incorporate the stratified ontology into research, CR adopts a generative (Blaikie and Priest, 2019) or mechanistic (Mingers and Standing, 2017) view of causation which rejects the traditional “successionist” approach (Sayer, 2008, p. 13). A successionist view would advocate that the repeated succession of events is equal to a causal mechanism and can be used to explain the existence of any phenomenon based on repeated observations. However, observation can only show us what exists, it cannot explain how and why things happen, and under what circumstances particular decisions are made (Sayer, 2000). Any explanation which fails to recognise the complex and relational importance of emergent properties is only a reductionist (Bhaskar, 2014) or one-sided account (Sayer, 2000) of the phenomenon in question.

The successionist causal approach can be seen in the current understandings of the informal economy. Economic informality is seen as the result of the over (De Soto, 1989) or under regulation (Castells and Portes, 1989) of the economic market or other formal institutional imperfections (Ireland and Webb, 2015). These approaches adopt a top-down view (De Castro et al., 2014) of economic non-compliance which does not consider how these various institutional factors are shaped by and shape individual agency. The full extent of the complexity and heterogeneity of how these different institutional factors condition, enable and constrain agency is not adequately accounted for. From a CR position these existing top-down explanations of informal activity, such as formal regulatory failures would be referred to by Lawson (1998) as demi-regularities or “demi-regs” (p. 152) as these do not explain the existence of informal activity thoroughly. Demi-regs merely highlight a rough association between two things which provides evidence of tendencies but does not explain their actualisation. These factors may be primary causal mechanisms which often appear dominant, although there may be other active background factors which need accounting for (Lawson, 1997). Pawson (2006) maintains that we should not be discouraged from looking for these demi-regularities as they provide areas for further exploration; we should stop using them as firm rules.

The generative approach to causation which CR adopts is in contrast to the successionist view and is based on a system of emergence whereby, Empirical observation is actually:

...the conjunction of two or more features or aspects gives rise to new phenomena, which have properties which are irreducible to those of their constituents, even though the latter are necessary for their existence (Sayer 2000, p. 12).

Observable outcomes from a CR view, such as informal activity are considered as being located in the Empirical realm, although, causally generated by entities which interact with each other as mechanisms at the Actual and Real layers of the stratified ontology, which may or may not be observable (Bhaskar, 1979; 2016). From this position, it becomes the task of the researcher through retroductive and abductive logic to understand the configuration of these entities and mechanisms at the deeper layers by understanding the contextual conditions which actualise them to explain the phenomenon being studied. Any explanation which fails to recognise the complex and relational importance of emergent properties is considered as being able to provide only a reductionist (Bhaskar, 2014) or one-sided account (Sayer, 2000) of the phenomenon in question.

This study has adopted this generative view of causation to explain how and why informal economic activity (IEA) happens at the micro-level which aligns with the aim of this study. More specifically, this study looks to understand the configuration of the institutional environment and how its interplay and relationship with agency over time has resulted in the service sector actors in this study resorting to informal economic practices. To operationalise this generative view of causation and the CR stratified ontology, this study draws upon the morphogenetic approach (Archer, 1995), which has been outlined in the conceptual framework (Section 3.3).

4.3 A Qualitative Study

The aim of this study is to build upon existing research on the informal economy by providing an in-depth account of the relationship between formal rules, informal norms and beliefs, agency and the propensity to engage with informal activity. To achieve this a qualitative methodology has been adopted which is focused on

generating a contextualised understanding of actors' motivations, logics and practices (Myers, 2013, p. 5). Ackroyd and Karlsson (2014) maintain that a decision to adopt a qualitative approach can also be driven by scepticism of large-scale quantitative studies, the measurement of attitudes or the use of inductive logic. However, the figures generated from these quantitative studies can be helpful to gain an understanding of the contexts in which any identified casual mechanisms may operate (Danermark, Ekstrom, et al., 2002; Sayer, 2000).

The qualitative methodological approach adopted in this study is aligned with a CR intensive as opposed to extensive study (Sayer, 2000). An intensive strategy is the most appropriate method as it focuses on the actor in their causal contexts (Ackroyd and Karlsson, 2014) whereas an extensive study would be more focused on the broad characteristics of populations. Sayer (2000) maintains that an intensive approach aligns with the use of qualitative case studies or action research (Ackroyd and Karlsson, 2014; Danermark, Karlsson, et al., 2002) dependent on the level of detachment or engagement with the respondents (Table 4.1).

If the overall aim is to affect, influence and change practice directly, then an engaged study is appropriate. However, as this study focuses on exploring how the institutional environment influences informal economic decisions and understanding how institutional messages are transmitted, an intensive detached approach is more suitable (Ackroyd and Karlsson, 2014; Sayer, 1992). This understanding resulted in a qualitative case study approach being adopted in this study which Yin (2018) maintains can excel with a relativist epistemology as seen in the CR approach used in this study.

Table 4.1 Designs Relevant to Realist-informed Research

	Distinctive Research Strategies			
	Intensive $\longleftrightarrow$ Extensive			
	What is the mechanism? (Context as given)	How do context and mechanism: typically interact? historically intersect?		What is the context? (Mechanisms inferred)
Research Procedures:				
Detached Study	Case studies (1)	Comparative case analysis (2)	Generative institutional analysis (3)	Research surveys and census data (4)
Engaged Study	Action research (5)	Intensive realist evaluation (6)	Barefoot historical research (7)	Extensive realist evaluation (8)
Dominant Logic of Discovery:	Abduction	Abduction	Abduction/ Retroduction	Abduction/ Retroduction

Source: Ackroyd and Karlsson (2014, p. 27)

4.3.1 The Case Study

Case studies focus on understanding an activity within its contextual environment (Stake, 1995). By studying a specific phenomenon in its real-life context researchers can begin to see causal mechanisms in place through, which in turn allows explanation (Gerring, 2007). A case is defined as a specific but complex, bounded and functioning thing (Stake, 1995). Yin (2018) goes on to highlight that a case study method is:

An empirical method that investigates a contemporary phenomenon (the case) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident. (p. 15)

The case study approach adopted in this research is aligned with the work of Abma and Stake (2014) and Stake (1995) who assert that the job of case study research is to

focus on the particularities of the case and its context by exploring how things work in a specific setting. Understanding the actors in context is important in this study because informal economic activity (IEA) is considered as a dynamic response which is highly “context specific” (Ram et al., 2019, p. 2). By adopting a case study approach this study can gain “local knowledge that is time- and context-bound” (Abma and Stake, 2014, p. 1152).

Abma and Stake (2014) assert that some cases will offer insights into relationships that have not yet been recognized” (p. 1152). This understanding aligns with CR and its relativist epistemological position and the aims of this study. This is an alternative approach to the work of Yin (2018) who argues that case studies enable “the identification of general and universal patterns” (Abma and Stake, 2014, p. 1150). Universal patterns can be seen in a positivist approach with the search for universal and generalisable explanations. However, from a CR position all research is considered to be value laden and therefore context, activity and concept dependant (Archer, 2020) making all findings relative to the case study under examination.

A case study approach can focus on single or multiple cases (Yin, 2018) which align with either an intrinsic or instrumental logic (Stake, 1995). An intrinsic case study focuses on understanding a specific single case which is the focus of interest, as opposed to a more general problem. An instrumental case study can focus on a general phenomenon through the study of a specific case or cases. This study adopts an instrumental case design (Stake, 1995) by exploring a number of cases to develop a deeper understanding of a more general phenomenon, namely IEA. The cases which are the unit of exploration in this study were chosen based on the belief that they would provide better insights than others (Stake, 1995). This instrumental logic can

therefore result in a collective case study approach when access to a number of cases is possible. This situation allows a researcher to maximise what can be learnt (Stake, 1995) given the time available and access to the field. By using the instrumental case approach this study developed a deeper understanding of the diversity of institutional factors present in the field of study by considering the responses from a wide range of actors. Access to multiple cases was facilitated through the network sampling approach and the professional network of the researcher (Section 4.3.2).

The specific case study in this research is micro sized formal service sector business in England, who are largely compliant, although at times adopt informal economic practices. Each individual case is considered as being instrumental to achieving the aim of this study with its selection being both theoretically (Silverman, 2020) and empirically guided. This case study represents a revelatory (Yin, 2018) or unusual (Stake, 1995) case type as although these businesses are largely formal they do adopt informal practices. By understanding why, a formal business would choose to switch between formal and informal practices this study developed a richer understanding of how the institutional environment contributes to economic non-compliance. This allowed the researcher to maximise what can be learnt given the time and access to the field (Stake, 1995).

Yin (2018) asserts that a potential problem of a case study is “slippage” (p. 53), when a case may not turn out as expected. However, as this research adopted an emergent overall research design (Maxwell, 2013) the research was not confined to strict premises. Although, this research adopted a conceptual framework (Chapter 3) to provide a degree of direction and adopted an interview guide (Appendix A), *slippage* was considered part of the unexplored depth of knowledge needed to progress the

field of study forward and not a problem. This became particularly important in the study considering that the service sector is a relatively unexplored realm with regard to informal activity in a developed context (Kedir, Williams and Altinay, 2018). The interview guide (Appendix A) provided direction for the interviews, so the study did not deviate from the topic of informal activity but allowed the respondents to discuss what they felt was important. This adaptive design was key to the success of the research as it allowed the study to gain an emic understanding of the cases. The explanatory strength of a case study approach is also supported by Eisenhardt (1989) who asserts that case studies are valid within explanatory research as there is a “likelihood of generating novel theory” (p. 546).

Generalisability

Generalisability refers to the relevance of specific findings to other settings (Saunders et al., 2016). This study has focused on a small number of cases in detail by understanding their “particularities” and “uniqueness” (Abma and Stake, 2014, p. 1150) meaning that statistical generalisation is not achievable due to the unrepresentative numbers involved. Statistical generalisations are also not compatible with a CR philosophical approach as all knowledge is considered fallible and context specific (Archer, 2020) due to the open system which is society. Inferential and theoretical generalisations (Lewis and Ritchie, 2003) can be made from the findings of this study. Inferential generalisations or *transferability* and *fittingness* (Lincoln and Guba, 1985) are supported through tactics which address validity (see Section 4.6). Detailed interpretations and descriptions are provided in this study through the use of “thick description” (Geertz, 1973, p. 6) and “rich data” (Maxwell, 2013, p. 126). For example, Section 4.5 outlines the critical characteristics of the actors (Blaikie and Priest, 2019) alongside the use of excerpts to support the discussions in Chapters 5 and 6. By

providing *thick descriptions* and *rich data* inferences may be drawn about other contexts or sectors, although judgements about the *transferability* and *fittingness* must be assessed by those seeking to generalise.

Theoretical generalisations are also possible in this study through the theoretical re-description of the empirical data (Chapter 7). This re-description provides a theoretical explanation of the empirical data and the generative causal mechanisms and processes in operation (O'Mahoney and Vincent, 2014). The causal process and theoretical concepts identified in this study may be theoretically relevant to other contexts, although the outcomes may differ due to other factors present. By using a retroductive and abductive logic in this study various explanations for the data were considered with the most plausible theoretical account in the given context put forward the discussions and conclusions. The mechanisms and theories identified in this research can be used to re-evaluate existing studies and understandings in different contexts.

4.3.2 Sampling Method

Businesses and individuals who adopt informal economic practices can be considered as being part of a hidden population who actively try to conceal their actions and identities (Vershina and Rodionova, 2011). This hidden status is related to the sensitivity of the topic and the intentional lack of declaration of these economic activities from the formal institutional authorities (Lee, 1993). This led to the use of a network sampling approach which was considered most the appropriate method (Lee, 1993).

Within the network sampling approach there are two prominent positions in the study of the informal economy, these are snowball (see Ram, Edwards and Jones (2007);

Vershinina and Rodionova, 2011; Williams and Round (2008) and chain referral sampling (see Ram et al., 2019). Both the snowball and chain referral approach typically use an intermediary or gatekeeper to access respondents when looking at hidden populations. Snowball sampling is a process where initially identified respondents from a network are used as gatekeepers, who vouch for and recruit further respondents. Although, as discussed by Lee (1993) this can result in a biased and homogeneous sample based on the limited social network of the intermediary (Penrod et al., 2003). Chain referral sampling (Penrod et al., 2003) uses a multiple snowball method to access more social networks. Entry is also through an intermediary or *gatekeeper*, with each gatekeeper coming from a different network. Each new referral then becomes a *locator* and nominates another respondent, and so on, to extend the reach of the networks involved. In consideration of the researcher's background as outlined in the Researcher Identity Memo (Appendix B), the method chosen was that of a chain referral approach (Penrod et al., 2003), which aimed to provide multiple degrees of separation between the researcher and the respondents.

Gaining Access

To gain access to the sample, five gatekeepers were initially identified from the researcher's professional network. Of the five gatekeepers identified, two participated in a pilot study (Section 4.4.2) and the remaining three individuals were formally interviewed before being used as *locators* (Penrod et al., 2003). The *locators* each vouched for the credibility of the researcher which allowed the researcher to take on a position of an interested, but non-threatening student-academic. Only two of the three *locators* made successful referrals which may be due to the sensitivity of the topic, this did not affect the overall sample size as the chain referral process continued until all planned interviews were completed. This process allowed the sole researcher to

gain access to an often-inaccessible group of actors which can often be avoided by researchers who assume that direct discussions with business owners about their informality is not feasible and are therefore avoided (Horodnic and Williams, 2018). Each case was approached carefully, the researcher intended to “enter the scene with a sincere interest in learning how they function in their ordinary pursuits and milieus” (Stake, 1995, p. 1).

The instrumental case design (Stake, 1995) and chain referral sampling method allowed the flexibility to include unscheduled interviews with other actors during the course of field work. These actors were considered to be suitable cases as they were instrumental in addressing the aims of the research. The extra nine cases as discussed in the fieldwork section of this chapter (Section 4.5) included actors involved with part-time fully informal businesses alongside formal employment, fully informal employees and finally, customers who regularly purchase services underpinned by informal economic arrangements.

4.4 Data Collection

Interviews were chosen as direct observation of informal economic behaviour was not considered possible by the researcher (Stake, 2010) due to its illegality, and the limited time available with this hidden population. The interview method is supported by both Yin (2018) and Stake (2010) who maintain that within case study research interviews allow a targeted approach to focus on research aims and provide access to the individuals’ unique understanding.

4.4.1 Active Interviews

An active interview process was adopted for data collection in this study which aligns with the CR position, as opposed to the objectivist or positivist use of interviews which sees them as merely a process to extract information (Smith and Elger, 2014). The interview process, as observed by Smith and Elger (2014) should:

Involve the interviewer and respondent engaging in a fluid, interactive process to generate a set of responses which formulate perspectives, observations, experiences, and evaluations pertinent to an overall research agenda. (p. 119)

The active part of the interview involved give and take by both the interviewer and interviewee through the iterative process of asking, active listening and following up. The interviewee was not given free rein as the researcher set some parameters to the discussion through a short semi-structured interview guide (Appendix A) which was lightly theory-driven (Kessler and Bach, 2014) through the use of the conceptual framework (Chapter 3) and the previously reviewed literature. The objective of each the interview was to maintain a natural conversational tone (Abma and Stake, 2014), but also ensure that the objectives of the study were covered. The active part of the interview focused discussion of the relevant areas of the study without limiting the respondent to a specific theory or explanation as these interviews were open-ended (Silverman, 2020). Entering the field with a strict interview schedule or explicit set of questions based on an existing theoretical explanation of informal activity would have constrained the study to testing a hypothesis as opposed to exploring the wider factors present. The active interview style proved to be important as the respondents openly and freely discussed many issues which they face on a day-to-day basis; far beyond what the existing theory and literature shows. In some cases, the actors covered all of the interview schedule without being directly asked, however at times the interview

guide acted as a prompt to get more details on some of the points raised. Ram and Williams (2008) outline that actors involved in hidden or IEA's will openly speak to researchers, which was indeed the case in this study. Although informal activity is illegitimate from a formal institutional lens, the actors involved all consider informal activity to be legitimate by other means, they were therefore responsive and open.

The focus of the interview was to understand the various formal and informal institutional factors which affect the individual actor and increase their propensity to engage with informal activity at the empirical level of the stratified ontology. The semi-structured and open-ended approach along with the sensitivity of the information collected meant that rapport building was key (Fontana and Frey, 2000; Silverman, 2020). Rapport building in this study was supported by the chain referral sampling method which meant that the researcher had already been vouched for through the use of *locators*. Rapport building was also promoted through the use an active style interview process which provided a natural conversational tone and a relaxed atmosphere throughout the data collection stage. The semi-structured design allowed a degree of objective separation between the researcher and the respondent during the interview allowing the researcher could to maintain an academic role in the study and not “go native” (Fontana and Frey, 2000, p. 78) by becoming “a spokesperson for the group” (ibid). This active interview process focused specifically on understanding the actor's interpretation of the institutional environment on their business activity and their general experience of informal activity.

From a CR position interviews as a data collection method are important as they provide an authentic account of the situation being researched, however, due to the depth ontology this view must be accepted as fallible to not confuse what is real with

our interpretation of it (Archer, 2000). An actor's account forms only one layer of the stratified ontology, it is then the job of the researcher through an abductive research strategy, to explore the underlying mechanisms operating below the surface. The final active interview process was developed from the pilot study.

4.4.2 Pilot Study

To improve the quality of the overall research, a pilot study was used to prepare the researcher for the main stages of data collection. The pilot study involved interviewing two of the initially identified gatekeepers to enable the researcher to make the most of their limited time in the field and collect the most comprehensive and inclusive data possible. As a result of the pilot study the interview schedule was developed to allow a more flexible overall approach (Silverman, 2020) as the respondents in the pilot interviews openly discussed their situations without the need for continuous questioning. The pilot study had a positive effect on the research output and the researcher's personal confidence in conducting the study. The pilot study further influenced the research by providing:

- A rationale for the development of the interview schedule and adjustments to reduce leading and irrelevant questions.
- Clarity on the best order for the questions and the interview to follow.
- An understanding of the approximate length of the interview process.
- Support for the use of the Three Pillars framework (Scott, 2014) to define the contextual boundaries and building blocks of the research.
- An early understanding of some of the institutional effects on decision making.
- Clarity that the interview method was suitable for achieving the research aims.

4.4.3 Ethics

Ethics should be considered as more than merely extra bureaucracy needed to gain approval for the research to begin as they affect the validity of the findings (Maxwell, 2013; Myers, 2013). The research conducted was subjected to the De Montfort University ethical review process and approval was granted through the submission of a formal application to The Faculty's Research Ethics Committee. Informed consent was gained through the use of a formal consent form (Appendix C) and accompanying participation information letter (Appendix D). All of the respondents were given the option to reject the use of recording devices if they felt it would affect their anonymity. All participants were also advised that they could terminate or pause the interview at any time if they felt uncomfortable (Myers, 2013). The interviews were designed to be active in nature and follow a semi-structured design, this allowed the respondents to feel a part of the process and not merely an interview subject. This semi-structured process allowed the respondent to discuss the questions in a manner, extent and pace to which they felt comfortable. Permission to publish was also obtained during the informed consent stage which was granted on the promise of anonymity through the use of pseudonyms within the final thesis and any subsequent publications (Myers, 2013). The research also used wider locational descriptions such as The East Midlands as more specific locations may have led to the identification of the businesses in some instances. Finally, within the interview process no personal contact data of the respondents was collected as the *locators* in the chain referral sampling approach arranged and passed on the researcher's contact details to the next respondent.

The ethical process followed in the course of this study meant no moral, economic or psychological harm would be a result of participation (CABS, 2015). All data collected was stored and regularly backed up on a secure encrypted USB drive with the actual

recording deleted once transcribed verbatim. The sole researcher was the only person with access to raw data. This approach ensured that data collected on the individual participants remained confidential and could cause no harm, this process followed the guidelines set by the Data Protection Act (1998) and General Data Protection Regulations (2018) which were introduced during the research.

4.5 Entering the Field

The interviews were conducted over a period of three months beginning in January 2019 and concluding in April 2019, all interviews were conducted by the sole researcher and author of this thesis. All respondents chose their interview time and location to ensure they felt comfortable, these premises varied between shared formal office spaces or industrial locations away from their own businesses, although public cafes, restaurants and libraries were also used.

When entering the field the researcher's background was considered as a possible threat to validity as the researcher could *go native* if a closer than necessary bond was created with the respondent (Fontana and Frey, 2000; Miles and Huberman, 1994). The researcher intentionally avoided discussing their professional background in detail to ensure the respondent remained focussed on telling their own story and not relating to and comparing themselves with the researcher or their background. The researcher presented themselves as a previous small business owner who has changed career direction and is working at an academic institution, conducting interviews as part a PhD study. The chain referral process and prior experience of the researcher helped gain trust and establish rapport with the respondents, this had a positive effect on the openness and honesty of discussions through the data collection process.

The purposeful chain referral sampling method allowed access to networks and businesses previously unknown to the researcher, which widened the sample selection beyond the researcher's social network by five degrees in some instances. The total number of interviews conducted was thirty-four which exceeded the original twenty-five anticipated. This number increased as the opportunity arose whilst in the field to collect further data from three other small groups of individuals. These supplementary interviews were made up of employees with informal working arrangements, individuals that operate a part time fully informal basis alongside formal employment and finally customers who purchase services on an informal economic basis. Participation by these groups was not expected within the research plan, but due to the adaptive and instrumental case study design, these stories and views became important in achieving the research aims. The supplementary interviews provided an extra perspective on IEA and helped to validate the responses given during the primary interviews with formal business owners, adding an extra layer of depth to the analysis, findings and conclusions.

The ages of the final respondents varied between brackets from twenty to fifty-nine years of age. Five females and twenty-nine males were interviewed, with all respondents falling into a white British ethnic classification. This limited representation is due to the nature of the chain referral process which meant a wider sample was unachievable and also not a requirement for this study as statistical generalisation is not an expected outcome. The characteristics of the final sample and location are discussed next to allow an understanding of exactly who participated in the study.

Business Owners

This study focused on understanding the interplay of the institutional environment and individual agency with regard to formally registered businesses who adopt informal economic practices at times. The primary group of actors involved in this study were individuals who operate largely formal and registered businesses within the service sector of the East Midlands (Table 4.2) whilst still adopting some informal economic practices. The business owners had a working understanding and experience of informal activity within their specific industry, and beyond – as the findings indicated. For instance, during the interviews it became clear that participants all had experience of informal working arrangements from previous jobs and roles, which became relevant to the findings of this study (Section 5.2). The businesses involved ranged in activity from mobile household services such as electricians, heating engineers and general building maintenance, to businesses providing services from fixed premises such as hairdressers, automotive mechanics, and car sales and minor repairs, these businesses were operated from industrial units and roadside garages. Participants who were business owners had owned their current businesses for between one and thirty years.

The businesses varied in legal status from sole traders and partnerships to limited companies, these businesses also varied in relation to Value Added Tax (VAT) registration. All of the individuals that participated owned businesses that are classified as owner managed, meaning the interviewee was responsible for all decisions in relation to the day-to-day running of the business. The businesses are all classified as being small to medium enterprises (SME) and also fall into the UK governments further classification of a micro business, as the number of employees in

all cases was less than ten and turnover did not reach two million pounds (Hart and Roper, 2018).

In the United Kingdom micro-businesses (0-9 employees) such as those within this study collectively turnover approximately £595bn annually and employ 4.2 million people (Gov.Uk, 2019). Although, 4.5 million of the total 5.9 million SME business in the United Kingdom have no employees (Gov.Uk, 2019). This is seen throughout the businesses in this study, although some formally employed staff a large number had no contracted employees. On average, the individual interviews lasted around sixty minutes in total, with the shortest being thirty-three minutes and the longest interview being ninety-four minutes.

Table 4.2 Primary Respondents - Formal Business Owners

Name	Age	Time in Current Business (years)	Gender	Business Service	VAT Registered	Company Status	Premises	Formal Employees
Abigail	30-39	4	Female	Hairdressing	Yes	Partnership	Fixed	Yes
Andrew	30-39	5	Male	Car sales and minor mechanical repairs	Yes	Sole Trader	Fixed	No
Ben	50-59	19	Male	Car sales and minor mechanical repairs	Yes	Limited	Fixed	No
Brian	40-49	10	Male	Automotive mechanical repairs – Car mechanic	Yes	Limited	Fixed	Yes
Carl	30-39	4	Male	Automotive mechanical repairs – Car mechanic	Yes	Limited	Fixed	Yes
Christine	40-49	5	Female	Hairdressing	Yes	Limited	Fixed	Yes
David	50-59	6	Male	Antiques Dealer	Yes	Sole Trader	Fixed	Yes
Dennis	30-39	5	Male	Electrician	Yes	Sole Trader	Mobile	No
Ethan	50-59	15	Male	Automotive mechanical repairs – Car mechanic	No	Sole Trader	Mobile	No
Ewan	40-49	25	Male	Car valet services	No	Sole Trader	Fixed	No
Freddie	50-59	30	Male	Automotive body repairs – Car mechanic	Yes	Sole Trader	Fixed	Yes
Gemma	30-39	1	Female	Hairdressing	No	Sole Trader	Fixed	No
Hank	40-49	8	Male	General house building services	Yes	Limited	Mobile	No
Henry	50-59	20	Male	Painting and Decorating	No	Sole Trader	Mobile	No
Ian	30-39	10	Male	Car Sales and minor mechanical repairs	Yes	Sole Trader	Fixed	Yes
Isaac	30-39	15	Male	Plumbing	No	Sole Trader	Mobile	No
Kevin	40-49	8	Male	Car Sales/Trading	Yes	Sole Trader	Fixed	No
Kyle	30-39	14	Male	Painting and Decorating	No	Sole Trader	Mobile	No
Lee	40-49	15	Male	Steel Fixing/ground works	No	Sole Trader	Mobile	No
Liam	50-59	12	Male	Household heating services - Heating Engineer	No	Sole Trader	Mobile	No
Oliver	40-49	10	Male	Automotive mechanical repairs – Car mechanic	Yes	Sole Trader	Fixed	Yes
Owen	30-39	8	Male	Household heating services - Heating Engineer	No	Sole Trader	Mobile	No
Paul	50-59	5	Male	Plasterer	No	Sole Trader	Mobile	No
Peter	30-39	13	Male	Tree Surgery	No	Sole Trader	Mobile	No
Robert	40-49	9	Male	Landscape Gardening	No	Sole Trader	Mobile	No

Source: Author

Part-Time Informal Business Owners

The individuals in this group operated a part-time business (Table 4.3) which is fully undeclared alongside a full-time formal job. The part-time activity undertaken was in one case complementary to their formal work, involving the same set of skills and profession. Whereas the second respondent had a professional career in criminal justice but operated an informal car sales business on part-time basis. This group of individuals were in competition with formal businesses and did not declare any income from the extra work. These interviews lasted around twenty minutes each. A modified version of the semi-structured interview schedule was constructed whilst in the field as these interviews were unexpected, although the interviews were led by the respondents who were keen to tell their stories.

Table 4.3 Part Time Fully Informal Business Owners

Name	Age	Employment Status	Gender	Occupation	Informal Business Activity
Jack	50-59	Formally Employed	Male	Criminal Justice	Car Sales
George	50-59	Formally Employed	Male	Plasterer	Plasterer

Source: Author

Informal Customers

The next set of unanticipated supplementary interviews were with customers who purchase goods and services which involve informal (Table 4.4). These customers knowingly entered into informal transactions. Although they had previously purchased services from a primary respondent their experience in informal purchasing went beyond these businesses. This group of actors all agreed to be

recorded although their interviews were considerably shorter than the other groups' interviews, lasting around fifteen minutes each.

Informally purchasing goods and services means agreeing a lower price with the provider of the goods or services on the understanding that no receipt is given. The lack of a legal record of the sale means the legal requirements for tax purposes can be avoided by the business in exchange for a discount to the customer. These interviews with customers were arranged by the business owners, who acted as gatekeeper. These interviews were again an unexpected result of the time in the field and were driven by the researcher who asked these actors for their experience of purchasing goods and services with informal economic arrangements supporting them, with follow up questions being asked to probe deeper.

Table 4.4 Informal Customers

Name	Age	Employment Status	Gender	Occupation
Joseph	40-49	Formally Employed	Male	Health Care Assistant
Mary	50-59	Unemployed	Female	Housewife
Matthew	40-49	Formally Employed	Male	Marketing Manager
Neil	50-59	Formally Employed	Male	Factory Manager
Nicola	30-39	Formally Employed	Female	Nurse

Source: Author

Informal Employees

During interviews with primary respondents the researcher was also given the opportunity to speak with two employees who work on a fully informal basis (Table 4.5). However, only one is listed in the table as the second employee declined a formal recorded interview or to allow their details with regards to age and gender to be part of the study. This actor did however agree to participate in a discussion with the

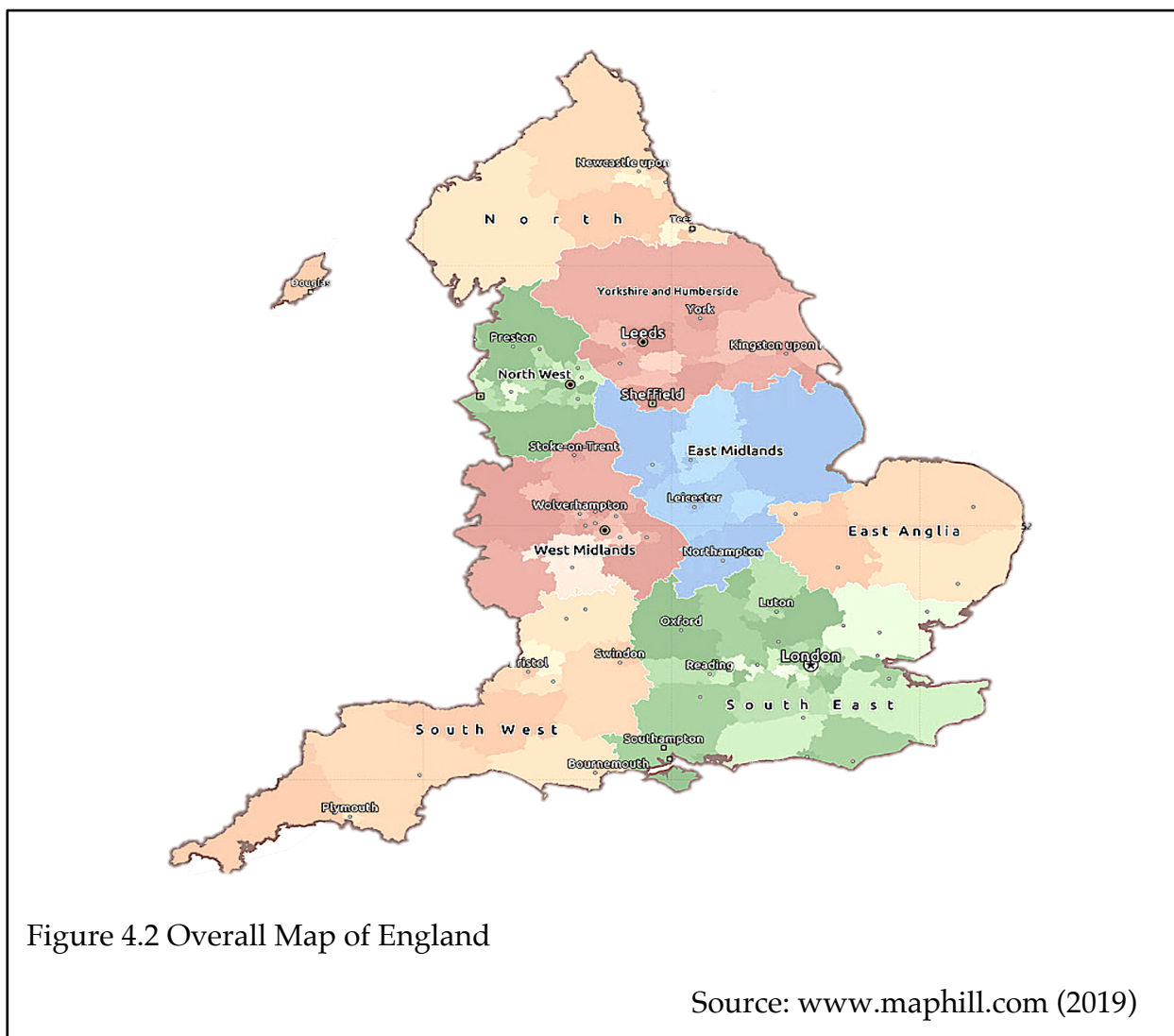
researcher with accompanying field notes being taken to summarise their opinion. Informed consent was obtained for both of these individuals and the researcher's field notes were checked by the employee to ensure the evidence collected was a fair representation of the discussion.

Table 4.5 Informal Employees			
Name	Age	Gender	Occupation
Flynn	30-39	Male	Car Valeting
Source: Author			

The two employees both worked on a fully informal basis, agreed that working in this way was mutually agreed, and they claimed no government benefits alongside this employment. These interviews lasted around fifteen minutes and were unstructured, with the respondent leading the discussion initially accompanied by follow up questions being asked by the researcher as new issues were brought to light.

The Location – The East Midlands

Geographically the study was conducted in the East Midlands (Figure 4.2), which is a reflection of the sole researcher's professional background and the access to connections in the area who acted as gatekeepers in this study. The East Midlands is a localised area of England which includes the counties of Northamptonshire, Leicestershire, Nottinghamshire, Derbyshire and Rutland. The East Midlands has a population size according to a 2018 report by the Office for National Statistics of 4,804,149 with a gender split of 50.6% Female to 49.4% Male.



Although the East Midlands is seen as being typically strong in the manufacturing sectors, it has recently seen a growth in its service sector with approximately 74% of the total businesses in the area classified as being contained within the service industry compared to a national average of 77%. The service sector is now the fastest growing in both the United Kingdom and the East Midlands. Informal activity in the United Kingdom between the years of 1991 and 2015 is estimated at 13.3% of Gross Domestic Product (GDP) (Medina and Schneider, 2017), although due to the nature of informal activity all estimates vary greatly (Williams, 2019) and therefore must be considered tentative.

4.6 Methods for Analysing Data

Data analysis involved two stages; first the data was explored through categorisation, then explanations for the data were sought in a connecting stage. The data was categorised through a process of data familiarisation and sorting through a CR abductive coding strategy which focused on understanding the institutional factors which effect the individual at the empirical ontological layer. This exploration stage involved developing relevant categories from the data, the existing literature and the conceptual framework. The explanatory stage which followed focused on developing a theoretical re-description of the empirical data by looking for connections between the exploratory categories and analytical staging provided by the morphogenetic cycle (Archer, 1995) and the conceptual framework. The explanatory stage provided a generative causal explanation of the data which aligned with the real and actual layers of the CR stratified ontology. This categorising and connecting approach resulted in a causal timeline that connected the institutional findings from this study to a full morphogenetic cycle.

The conceptual framework in this study acted as an implicit orientating lens to simplify and organise thinking during the data analysis as opposed to providing a testable body of ideas (Ackroyd and Karlsson, 2014). In this sense, the framework provided theoretical and analytical scaffolding through an abductive research strategy as both inductive and deductive inferences were considered as being inadequate exploratory tools. For example, by adopting a deductive approach as the sole research strategy findings would be limited to the premises set by the literature and therefore fail to acknowledge data outside of any constraints set. Induction on the other hand produces a bottom up understanding which generates themes that have a strong association with the data and not with the researcher's theoretical position, as

in a grounded theory (Glaser and Strauss, 1967). The use of a solely inductive approach was also rejected on the grounds that complete detachment is not possible as the researcher always has a theoretical position in mind when starting the research (Kessler and Bach, 2014). Data analysis was not simply grounded in the accounts provided by the actors as it was also associated with the researcher's philosophical position and the conceptual framework. The rejection of both induction and deduction as the sole research strategies led to the use of an abductive approach to data analysis which is advocated in CR research (Kessler and Bach, 2014).

Abduction involves iterative cycles between theory, existing literature and empirical data. This approach allowed new insights to emerge as they developed through induction whilst the study was still guided by existing theory by deduction, although the study was not theory determined. This process is particularly useful in this study due to the lack of existing data on service sector businesses in relation to IEA. The abductive approach also aligns with the researcher's previous professional experience, background and knowledge of informal activity. This previous background and knowledge is embraced (Maxwell, 2013), meaning that the researcher had to accept the value-laden nature of the research, therefore it was impossible to enter the field with no prior theory or understanding. To mitigate the researcher's existing understandings various tactics were adopted throughout the research to ensure validity and professional standards were maintained. Table 4.6 provides an overview of the four stages of the data analysis along with the specific activities and tactics associated with each stage.

Table 4.6 Data Analysis Stages

Ontological Focus	Exploratory Stage – Findings Chapters 5 and 6			
	Stage	Activity	Validity tactic	Contribution to thesis
Empirical Layer	Stage 1 Data familiarisation	Manually transcribe data verbatim. Re-read transcripts	Reflexive journal	Transcribed data
	Stage 2 Generating provisional codes	Upload data to NVivo 12 Provisional coding strategy	NVivo 12 to manage data Member checking to assess interpretive validity Supervisors and external expert support	Provisionally Coded Transcripts 7 codes developed into 52 codes
	Stage 3 Focused coding	Focused coding Theme development	Supervisors and external expert support	Focus coded transcripts Resulting in 5 themes containing 13 sub-themes
Actual and Real Layer	Explanatory Stage – Discussion Chapter 7			
	Stage 4 Theoretical re-description	Analytical resolution Theoretical re-description	Revisiting literature for competing explanations Judgemental rationality Clear methodological approach	Synthesis of findings in Chapter 7

Source: Author

Stage 1 - Becoming familiar with the data

The first stage of data analysis adopted an exploratory stance which looked to understand the phenomena in context. In the exploratory stage the conceptual framework directed the researcher to look for the presence of important factors in

areas of previously established correlations from the existing literature and theory. This approach provided direction for the study and is based on finding themes linked to the theory initially adopted by the researcher (Saldana, 2016). The exploratory stage was important in this study due to the relative lack of data on the informal economy within the service sector. The exploratory stage laid the foundations for the final explanation developed in this study which involved the theoretical re-description of the empirical data as outlined in Chapter 7.

The practice of data analysis began with what Braun and Clarke (2006) discuss as data familiarisation. Data familiarisation started whilst in the field as the sole researcher involved with this study was responsible for conducting the data collection. This initial stage was supported with a reflexive journal (Ahern, 1999; Tufford and Newman, 2012) which was used to bracket the researchers initial feelings about what was being said. A sample of the tone and format of these reflexive diary entries can be seen within the Researcher Identity Memo located in Appendix B.

This reflexive process allowed the researcher a space to become explicitly aware of their opinions and feelings, this process led to the maintenance of interpretive validity (Maxwell, 2013) in the latter stages of the data analysis. The interviews were transcribed verbatim and then re-read along with the field notes collected to gain a more detailed understanding of what had been said. This understanding allowed a consideration of the data alongside the researcher's beliefs and preconceptions.

Once transcribed the data was uploaded to NVivo 12, a computer aided qualitative data analysis software (CAQDAS). Saldana, (2016) supports the use of CAQDAS as it

particularly useful for handling large amounts of qualitative data for storage, organisation and management which enables “human analytical reflection” (p. 30).

Stage 2 Developing Categories - Provisional Coding

Coding is a key part of qualitative research as it provides a process for making sense of the data collected (Creswell and Poth, 2018). The aim of the first stage of coding was to reduce the data into more usable information by grouping them into significant categories. Data reduction and analysis although presented here in a linear fashion was a “cyclical process”(Blaikie and Priest, 2019, p. 204) which aligned with the abductive strategy as it was impossible to separate the stages.

Each individual case and interview transcript was individually assessed through a process of provisional coding which was the first stage of the analytical process. Provisional coding is appropriate for exploratory research (Saldana, 2016), in practice this meant developing a tentative set of codes which where be based on prior literature reviews, the existing theoretical understanding of the informal economy and the conceptual framework. Before the coding process started a set of seven provisional codes were generated from the conceptual framework and the review of the literature, although all were later modified, added too or rejected (Table 4.7). Creswell and Poth (2018) maintain that this first set should be a short list of “lean” codes (p. 190) which is only expanded when necessary.

These seven provisional codes were considered as being tentative and flexible. A rigid approach may mean finding these initial codes regardless of what the data shows (Saldana, 2016). With this in mind these provisional codes were examined, revised and modified in alignment with the interview data, and in consideration of the

reflexive diary. Meyer and Lunnay (2013) support the adoption of the provisional coding method and assert that this approach fully utilises the abductive strategy, either rejecting or firming up provisional code's whilst retaining information outside of their remit.

The individual transcripts were all provisionally coded by categorising the data into a similarity-based configuration (Maxwell, 2012). Alone these provisional codes did not specifically explain what was happening but began to indicate which institutional factors were important (Maxwell, 2012). This provisional coding process continued until all the interview transcripts were coded and a more comprehensive set of provisional codes had been developed from the initial seven. The provisional coding stage resulted in fifty-two codes (Table 4.7) which represented the breadth obtained from the flexible and inclusive approach (Meyer and Lunnay, 2013; Saldana, 2016).

The application of this provisional coding process at work can be seen in the early adoption of a code for formal regulation and formal institutions based on the conceptual framework. At this early stage this code looked to capture any discussion of the effect of legal regulation or formal institutions on the individual's business practices. Through further stages of data analysis, it became clear that although formal regulation and formal institutions were prominent factors in the discussions it was far more complex than these two codes could account for. This code was therefore developed into smaller more specific codes based around particular laws, institutions and the problems they caused the actors. For example, VAT (value added tax) and labour law became significant discussion points which were also related to financial penalties and bureaucratic burdens. These regulative codes also aligned with different

institutional carriers such as accountants who were responsible for transmitting regulative messages about non-compliance.

Table 4.7 Lean and Provisional Codes

INITIAL PROVISIONAL CODES (LEAN CODING)	PROVISIONAL CODING	
FORMAL INSTITUTIONS FORMAL REGULATIONS	VAT Labour law Sales of Goods Act (2015) Regulatory trade associations Over regulation Under regulation Unclear about regulation Fear of detection	Guilt from non-compliance Costs of compliance Bureaucratic burden Financial penalty Apprenticeships Formal training Informal competition
NORMS, VALUES AND CULTURAL BELIEFS	Acceptable practice Legitimate activity Social obligation Recognisable activity Taken for granted	Appropriate Cultural embeddedness Informal employment Normative behaviour Culturally acceptable
INSTITUTIONAL ASYMMETRY	Lack of trust people Lack of trust in other businesses Lack of trust in the government	Government corruption Low tax morale High tax morale
RATIONALE FOR NON-COMPLIANCE	Rational economic actor Social actor To help out friends To help out community Informality for profit Social mobility	Test business out Raise capital Banks refused to lend Survival Avoid regulations
INSTITUTIONAL MESSAGES	Institutional carrier Employers and supervisors Customers	Accountants HMRC
INFORMAL PRACTICES	Non-declaration of income Underdeclared income Cash-in-hand for employees	Cash in hand for work Envelope wages received

Source: Author

The provisional coding process meant that extracts of data were coded multiple times as understandings developed. An example of this can be found in the data relating to

customers asking, *how much for cash*. These questions by the customers identified two things when first coding. Firstly, these comments highlighted the presence of a normative belief that non-compliance can be seen as legitimate and acceptable by customers. Secondly this seemingly harmless bartering also shows the relative power that customers can have over business owners in specific transactions meaning they adopt *corporate agent* status. Provisional coding stage took a semantic view to look for surface level meanings (Braun and Clarke, 2006). These provisional codes were then re-grouped into more significant categories and themes through a more focused coding approach (Saldana, 2016).

Stage 3 Developing Themes - Focused Coding

Focused coding was the second stage of the analytical coding process. Focused coding involved looking at the provisional codes to see what made the most analytical sense by examining the adequacy of the provisional codes (Charmaz, 2014). This process meant looking at and re-working the most significant provisional codes to establish more important groups and categories which then acted as themes for the next stage of data analysis (Theoretical Re-description). For example, during this stage codes relating to various formal institutions and regulations such as VAT were reconsidered and reclassified as different formal institutional failures in alignment with the existing literature. This resulted in a group of themes relating *institutional weaknesses*, *institutional uncertainty* and *institutional powerlessness*. The focused codes and then themes for each interview were re-worked and considered across the cases to begin connecting the various codes across the complete case study sample by considering each individual case as a whole.

To maintain credibility in the early interpretations of the findings a process of *respondent validation* (Maxwell, 2013; Silverman, 2020) or *member checking* (Lincoln and Guba, 1985) was used. Member checking is a process whereby the validity of the tentative findings and interpretations are reviewed by the actors from which data has been gathered (Maxwell, 2013). In practice this process meant that three of the initial gatekeepers identified in the chain referral sampling method (Section 4.3.2) were invited to assess the early interpretations of their interviews and a summary of the wider early findings. This stage was also supported with regular meetings with research supervisors and an external expert on the topic area. Analysis at these early exploratory stages was focused on understanding the empirical layer of the stratified ontology and the individuals' experience by categorising the empirical data into more understandable and useable codes and themes.

Stage 4 - Connecting Strategy - Theoretical Re-description

Maxwell (2012) outlines that connecting strategies should look to identify underlying meanings contained within the data as a whole as in a latent approach (Braun and Clarke, 2006). These connecting strategies focus on understanding key relationships in the data (Maxwell, 2012). In this sense the themes were considered in relation to the generative view of causation adopted by this study and the morphogenetic lens. The aim of this explanatory stage was to begin to focus on understanding the connections between each theme, their order and their relevance in understanding IEA in relation to the conceptual framework and research objectives. This stage of the data analysis was supported by an abductive research strategy. A series of iterative cycles of reflection, visits to the existing literature and development of the conceptual understanding took place as respondent terms and concepts began to need refining and exploring to make sense of the data. These iterative cycles provided a pragmatic

way to best understand the empirical data generated through data collection (Saunders, Lewis and Thornhill, 2016) in comparison to the conceptual framework. The abductive process allowed new information outside of the initial conceptual understanding to be accepted and developed, whilst continually revisiting the literature to look for theoretical explanation (Danermark, et al., 2002).

This final stage focused on the actual and real layers of the stratified ontology through the use of morphogenetic insights (Archer, 1995), and a process of “analytical resolution” (Danermark, Karlsson, et al., 2002, p. 109) and “theoretical re-description” (ibid, p. 110) of themes from previous sections. Analytical resolution began by separating and re-examining the relationships between the initial codes and themes into a more definitive theoretical re-description (Figure 4.3) in alignment with a morphogenetic cycle, namely *structural conditioning* and *interaction*.

Theoretical re-description involved increasing the level of theory used in the analysis and began to consider how the temporal relations between various institutional factors worked as mechanisms at the actual and real layers of the depth realist ontology (Blaikie, 2007). This stage also considers how the identified mechanisms have come to exist (Sayer, 1992; Danermark et al., 2002; Meyer and Lunnay, 2013). This final stage fully utilised the morphogenetic insights and the analytical separation of structure and agency which broadened the overall scope of the study (Ackroyd and Karlsson, 2014). For instance, an understanding of how institutional factors affect the situational context of the actors developed, as well as how actors are structurally conditioned to accept the legitimacy of IEA by a pre-existing institutional environment. These findings are presented and discussed individually in Chapter 5

Structural Conditioning and Chapter 6 *Interaction* with accompanying excerpts from the interview data. Chapter 7 provides a more detailed account of how informal activity emerges from the institutional environment in accordance with the institutional lens.

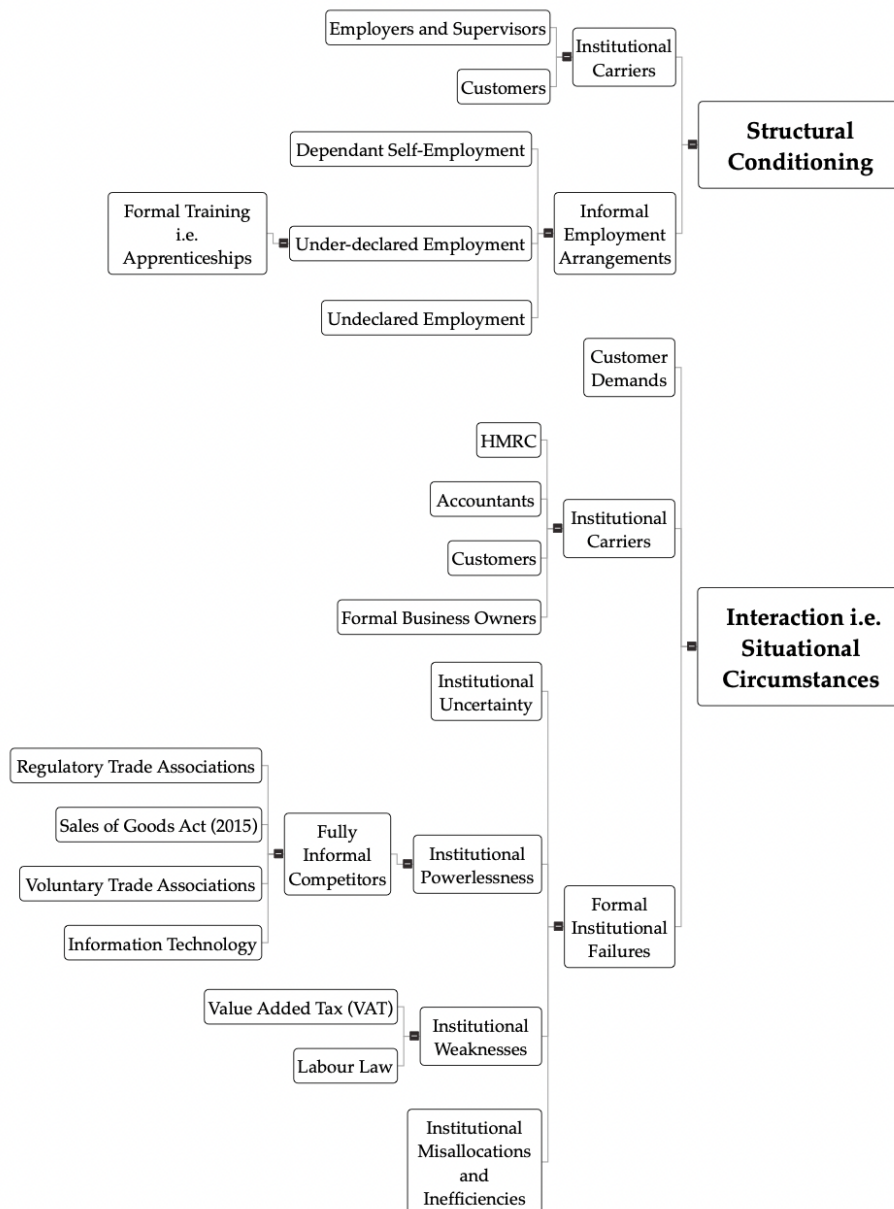


Figure 4.3 Theoretical Re-description – Connecting the Findings

Source: Author

The final stage of analysis uses a process of *judgemental rationality* which maintains that there are “rational grounds for preferring one [theory] to another” (Bhaskar, 2016, p. 25) as there is no direct access to the real layer of stratified ontology, making us reliant on the most convincing argument (Archer, 2020). The use of judgemental rationality has attracted criticism. Hammersley (2009) discusses the limitations of CR enquiry relating to value calls made, and unless explanations are judged from a position which is in agreement with them there is no reason to accept their validity. Hammersley (2009a) further argues that there is a lack of clear criteria for the assessment of any value calls. In defence of the judgemental rationality used within this thesis, it is argued that with a clear and explicit discussion around the methods for data collection (Section 4.4) and analysis (Section 4.6), and the tactics used to support the validity of this research (Section 4.7), that the value calls being made are based on data and are therefore the result of scientific enquiry. This scientific enquiry has led to the production of a theory which is more *practically adequate* than other competing explanations (Sayer, 2010).

4.7 Research Evaluation – Reflexivity and Validity

Lincoln and Denzin (1998) maintain that validity in qualitative research is based on the credibility of the explanation offered. This is supported by Maxwell (2012) who outlines that within all research there will be threats to this validity and to any inferences that can be drawn from the data. Maxwell (2012) provides a useful categorisation of the areas of validity a qualitative researcher must address, namely researcher reflexivity, descriptive, interpretative and theoretical validity. These four areas along with any identified threats and the tactics used to address them will be discussed next.

4.7.1 Researcher Reflexivity

Lincoln and Denzin (1998) assert that behind all the areas of “interpretative work” (p. 23) there is a “biographically situated researcher” (p. 23) who adopts particular perspectives and points of view depending on their historical development. Researcher subjectivity can create an unwanted bias if left unattended, which can threaten the validity of qualitative research (Maxwell, 2013). Subjective beliefs from a positivist paradigm are usually considered a form of bias to be eliminated, whereas from a CR approach all research is considered as value laden. Researcher perspectives must be accepted, made explicit and embraced as complete detachment and objectivity is impossible (Bhaskar, 2009; Crotty, 2014; Saunders, Lewis and Thornhill, 2016). As a result CR adopts a confessional based approach (Finlay, 2012) which advocates the explicit acceptance of subjectivity. This confessional approach to reflexivity is demonstrated in Appendix B with a Researcher Identity Memo. The importance of embracing this subjective position is discussed by Peshkin and Glesne, (1992):

My subjectivity is the basis for the story that I’m able to tell. It is a strength on which I build. It makes me who I am as a person and as a researcher, equipping me with perspectives and insights that shape all that I do as a researcher, from this selection of the topic clear through in my writing. Seen as virtuous, subjectivity is something to capitalize on rather than exercise. (p. 104)

Researcher reflexivity in this study is considered as developmental journey made up of prospective and retrospective considerations (Attia and Edge, 2017). Prospective reflexivity focuses on potential bias and the steps which are needed to build trust and credibility in the findings. Whereas retrospective reflexivity looks at the researcher’s journey and the changes made to practice as a result. Attia and Edge (2017) maintain

that during the journey of a researcher, observations are made, a step back is taken to reflect before more action is taken. This process is important as it is how the researcher develops their skills whilst engaged in the field.

To further understand reflexivity Lynch (2000) provides a discussion around an “inventory of reflexivities” (p. 27) outlining various reflexive positions. In this study *philosophical self-reflection*, *methodological self-consciousness* and *methodological self-criticism* (Charmaz, 2016; Lynch, 2000) were considered important. This led to the adoption of prospective and retrospective tactics being introduced to the research process to remove any mechanical “thoughtless”, “instantaneous” or “knee-jerk” responses (Lynch, 2000, p. 27).

To enable *philosophical self-reflection* – the critical examination of the researcher’s own beliefs about informal activity – and to account for the impossibility of complete detachment from the study, a reflexive journal was employed. The reflexive journal allowed the researcher to unpack and *bracket* (Ahern, 1999; Tufford and Newman, 2012) thoughts and general assumptions throughout the research process. Regular meetings with the supervisory team and external experts on the topic of the informal economy also allowed the researcher a place to acknowledge and unpack their own beliefs in the company of knowledgeable colleagues in relevant areas of the research. Retrospectively, this process of *philosophical self-reflection* allowed the researcher to develop a more comprehensive understanding of their position and prior assumptions.

From a *methodological self-conscious* (Lynch, 2000) position, the relationship between the researcher and participants in this study should be explored with regards to the

researcher's previous experience. Charmaz (2016) discusses that "methodological self-consciousness" (p. 2) involves the researcher examining themselves in the research through "a deeply reflexive gaze" (ibid, p. 2). As discussed within the Researcher Identity Memo (Appendix B). The researcher has a history associated with small businesses and therefore maintained a degree of separation from any individuals previously known to them. This *reflexive gaze* resulted in the adoption of the chain referral sampling method (Section 4.3.2) which allowed a degree of separation to be maintained by the researcher and their professional network. Although using convenience sampling would have been the easiest and quickest way to conduct data collection it would have limited the responses and discussions to that of the researcher's existing network. The researcher interviewed actors from beyond their own network, which the chain referral sampling method enabled.

A final consideration within this research was "*methodological self-criticism*" (Lynch, 2000, p. 29). This involved re-examining the ideas and theories developed from the study regardless of their attractiveness or potential wider acceptability in the academic community. The emergent approach that this research adopted and the CR process of abduction, meant that the research developed in an iterative way which involved re-examining the data, methods and conclusions as a process of standard practice, therefore continually being self-critical. *Methodological self-criticism* was supported through *member checking* and regular meetings with the supervisory team and external expert which led to the *judgementally rational* development of a *practically adequate* (Sayer, 2010) explanation of informal activity.

4.7.2 Descriptive Validity

Descriptive validity refers to the factual accuracy of the account that the researcher provides, it can be increased by ensuring that the data presented provides an accurate

account the interview. Within this study each individual case was conducted using an interview guide (Appendix A) similar to a semi-structured interview template as proposed by Yin (2018). These guidelines allowed a systematic check that all areas were actually covered to allow the analysis across the cases to be comparable. To ensure an accurate account of what was being, all interviews were recoded and transcribed verbatim with informed consent from the respondent.

4.7.3 Interpretive Validity

Interpretive validity (as opposed to descriptive validity) looks at the validity of the researcher's interpretation of the data collected. Interpretive validity is maintained when an emic account has been presented firmly based on the data, and the researcher has not pushed their own agenda (Maxwell, 2012). Blaikie (2007) outlines that to ensure the researcher has respected the actors account the respondent must still be able to see themselves in the data. In this study steps were put in place to check the researcher's interpretation of interview data aligned with the respondent's through a process of member checking (Denzin and Lincoln, 1998) which was implemented during the early stages of data coding. Due to the nature of the research and the respondents being part of a hidden population this process was limited to the three initial gate keepers, a process which is supported by Miles and Huberman (1994). This process of member checking was conducted through three second meetings with the original gatekeepers who assessed the researcher's interpretation of what had been discussed, in all cases the researcher's account was considered to be a fair assessment of what had been said.

During the interview process the opportunity arose to interview a number of actors outside of the original case study design. These supplementary interviews allowed a process of data triangulation (Stake, 1995) which was initially unanticipated. It

allowed the researcher to corroborate the details gathered from primary actors (formal business owners). In this study these supplementary interviews were with a small group of customers, fully informal actors and informal employees. These supplementary interviews all validated the businesses owners accounts of their experiences of IEA.

4.7.4 Theoretical Validity

Theoretical validity is different from descriptive and interpretive validity as they seek to confirm the accuracy of the findings, whereas theoretical validity looks at the legitimacy of the theory applied to the findings. Maxwell (2012) outlines that theoretical validity should be based how valid and legitimate the application of the theory is. The goal of theoretical validity is to ensure that tools, such as concepts and categories employed are relevant to the findings and research topic, and how the identified relationships are conceptualised and validated.

The CR research strategy of abduction ensured theoretical validity was maintained through a process of theoretical re-description. This process re-examines the exploratory data from the first three stages of the data analysis (Section 4.6) by looking to find the most realistic theoretical understanding available from the literature review and the theoretical approaches used. Maxwell (2012) proposes that theoretical validity can also be ensured by using terms that are already accepted and recognised to categorise the phenomena being studied. Within this study an institutional lens was adopted which has been seen within existing studies of the informal economy in different contexts as highlighted within the literature review (Section 2.4).

4.8 Chapter Summary

This chapter has presented the methodological approaches adopted within this study to achieve the research aims and objectives. The methodological approaches used are underpinned by a CR philosophical position which provides the foundations needed to advance the existing understanding of IEA. This study adopts an instrumental case study design with a semi-structured active interview process which has been is the most practical method to collect the data in this study. This chapter has set out the process used to categorise and connect findings and the tactics used to maintain research validity.

The next chapter focuses on explaining and discussing the findings from this study in relation to the first stage of the conceptual framework, namely *structural conditioning*.

Chapter 5 - Structural Conditioning

5.1 Introduction

This chapter is the first of two that explain the findings and discussions from the qualitative study of a group of micro-sized service sector business owners, who operate formal enterprises and still adopt informal economic activities (IEA's) at times. These businesses are located within the East Midlands of the United Kingdom. The aim of this study is to more precisely understand the emergence of informal activity from the institutional environment at the micro-level. Achieving this aim makes two contributions to knowledge. Firstly, this study addresses empirical gaps as service sector businesses who adopt informal economic practices remain relatively unexplored (Kedir, Williams and Altinay, 2018). Secondly, a theoretical contribution is made by addressing the dearth of micro-level understanding of informal activity (Littlewood, Rodgers, et al., 2018) through the contribution of a conceptual framework, which provides a detailed explanation of how institutions influence IEA at the micro-level is enabled.

The institutional environment in this study is viewed through a neo-institutional lens (Meyer and Rowan, 1977; Zucker, 1977) which posits that the economic behaviour of the actors in this study is representative of their institutional context (both formal and informal). More specifically these institutions are related to the regulatory (formal), normative and cultural-cognitive (informal) pillars (Scott, 2014) that provide the actors with different logics of practice and a basis for legitimacy (Kayaoglu and Williams, 2020). However, this institutional environment is reconsidered through the analytical tools provided by Critical Realism (CR) and its accompanying view of causation and emergence, that are applied to this study through the use of Archer's

(1995) morphogenetic cycle which works as a practical complement to CR (Porpora, 2013). The morphogenetic cycle (Section 3.3) considers structure and agency as being temporal as they are operational during different periods, while still being relationally dependant. The morphogenetic framework provides "a tool for examining the dynamics by which the 'parts' and the 'people' shape and re-shape one another through their reciprocal interaction over time" (Archer 1995, p. 194).

The conceptual framework adopted in this study is set out in Figure 5.1. This framework provides three areas of interest relating to "emergence-interplay-outcome" (Archer, 1995, p. 168). This analytical separation provides a causal timeline to develop a more precise understanding of how the power of the parts (institutional factors) condition and influence but do not determine agency (Archer, 1995). The application of this conceptual framework allowed the study to understand which institutional factors matter, when and why. This model also allowed a more precise understanding of who carries and promotes IEA in the actor's daily interactions.

IEA is situated at the T⁴ stage of the morphogenetic cycle. IEA is the outcome of the emergent interplay of various institutional factors and agency at the earlier stages of the cycle, namely *structural conditioning* and *interaction*. The focus of the following two chapters is to fully explain the findings from this study which have been derived from the categorising and connecting stages of data analysis; *structural conditioning* (Chapter 5) and *interaction* (Chapter 6).

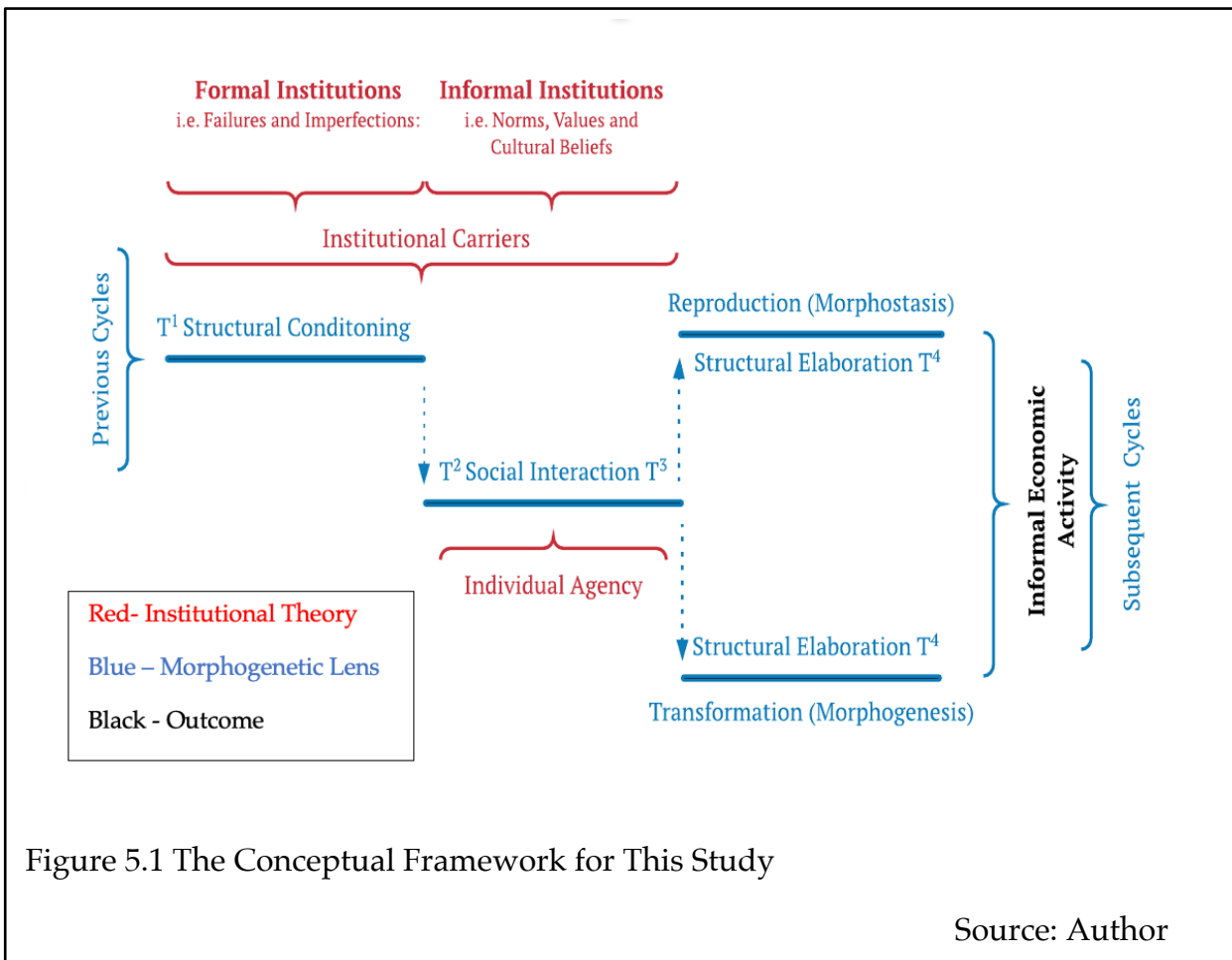


Figure 5.1 The Conceptual Framework for This Study

Source: Author

5.2 Structural Conditioning

The first stage of the morphogenetic cycle refers to the *structural conditioning* of decision making (Archer, 1995). *Structural conditioning* supplies the actor or group with a rationale for action by explaining why one activity would be regarded as a better course of action than another (Archer, 1995). Alternatively, *structural conditioning* may also explain why an actor might consider a particular action as an appropriate and acceptable response in a given situation. This early stage of the morphogenetic cycle can enable, constrain and/or shape individual *vested interests* (Archer, 1995). These interests help the actor to consider what might be an *achievable project* in their current situation (Archer, 1995). However, *structural conditioning* is non-

determinant as the actor always maintains a degree of agency (Archer, 1995) and although conditioned can still deviate from prior learning. At the first stage of the morphogenetic cycle the focus of this study relates to understanding how pre-existing structures, which may be formal or informal institutions, impinge (Archer, 2003), influence and condition. The *structural conditioning* stage explores how the institutional environment, in which the actor is involuntarily placed, conditions and influences future decisions (Archer, 1995).

The *structural conditioning* stage is characterised by various *informal employment arrangements* such as *undeclared employment*, *dependant self-employment* and *under-declared employment*. These arrangements work to undermine the perceived importance of formal institutions and the rules and regulations they impose on economic behaviour for the actors in this study. They do this by promoting the idea that compliance is optional in some scenarios. The actors in this study all experienced IEA early in their careers which has conditioned their future practices and decision making. These experiences happened long before the service sector actors in this study started their own business and has evidently provided them with a rationale and script which was used for future decision making. Appendix F contains two examples of typical timeline narratives from this study. Lee outlines the causal power and influence on decision making that this prior *structural conditioning* has on his future economic activity and practices:

You learn to survive the best way you can; your own personal surroundings maybe influence the decisions you make. Like I would never go out and steal anything, sell drugs or anything like that and that's because I've been brought up where that's unacceptable. I've always been around people working for

cash, so that seems acceptable to me, so I suppose I have learnt it. I've learnt that it's acceptable. (Lee – steel fixer)

In many cases the early experiences of informal activity predate the actor's current business profession, they are often built up across multiple other work experiences. For instance, although Brian (owns a car repair garage) and Liam's (runs a business as a self-employed heating engineer) first experience of IEA was by working on an informal basis:

Well, I suppose from a young age I was always paid cash, some summers I used to work in an egg place that was always cash, which was just how I thought it was. (Brian- car repairs).

My first job was at the golf course, and I did two-week work experience there. After my work experience, they kept me on, and I used to do that on Saturdays and Sundays from when I was about 13 to 17. They used to pay me cash in hand. (Liam – heating engineer)

The various *informal employment arrangements* which the actors in this study experienced before setting up their current business are outlined in Table 5.1, along with the different roles which these arrangements were associated with.

In the context of this study, these early employment arrangements as Lee (a self-employed steel fixer) previously described appear to support future decisions. Andrew (owns a car sales and repair business) succinctly explains "For me, I had an early experience of being paid cash. I suppose that sticks with you". These *informal employment arrangements* were part of the early introduction to the working

environment for all of the participants in this study. With employers and managers in all cases seemingly providing the guidance needed for these *informal employment arrangements* to be considered as acceptable, which in some cases became an expected practice. For example, Abigail explains that she has "just gone along with what my employers have told me, you just trust them don't you".

Table 5.1 Varieties of Early Career Informal Employment Experiences

Early Experience	Main Case Studies Identified In	Type of Role
Undeclared Employment	Abigail, Andrew, Ben, Brian, Christine, Dennis, Ewan Flynn, George, Hank, Henry, Ian, Jack, Joseph, Kevin, Kyle, Lee, Liam, Mary, Neil, Nicola, Oliver, Owen, Peter, Robert.	Bar Work, Building Site Labourer, Car Sales, Car Valeting, Car Mechanic, Dog Walker, Electricians Assistant, Farm Worker, General Building Work, General Factory Work, General Shop Assistant, Gym Instructor, Hairdresser, Kitchen Assistant, Landscape Gardening, Night Club Door Security, Painter and Decorator, Pharmacy Counter Assistant, Plasterer, Retail Assistant – Market, Shop Assistant – General Groceries, Shop Assistant – Golf Course, Shop Assistant-Clothes Shop, Shop Assistant- DIY Shop, Shop Assistant-Fish and Chip Shop, Shop Assistant-Pharmacy, Tree Surgeon
Dependant Self-Employment	Abigail, Carl, Christine, Gemma, Kyle, Lee.	Car Mechanic, Hairdresser, Painter and Decorator, Steel Fixer.
Under-declared Employment	Andrew, Ben, Hank, Ian, Matthew.	Car Sales, Building Site Labourer, Gym Assistant, Hairdresser, Night Club Assistant, Shop Assistant-Clothes Shop
Under-declared Employment in Formal Trainee Roles	Abigail, Brian, Carl, Christine, David, Dennis, Ethan, Freddie, Gemma, Henry, Isaac, Kyle, Liam, Owen, Paul.	Assistant Golf Professional, Car Mechanic, Car Body Repair, Electrician, Hairdresser, Heating Engineer, Household Appliance Repairs, Painter and Decorator, Plasterer, Plumber

Source: Author

Informal employment arrangements were present and influential in each case irrespective of the current trade, profession or basis of participation in this study. For example, it was not only the primary respondents (business owners) which had an early

experience of informal activity as the supplementary respondents in this study such as customers, employees and fully informal actors also had early experiences of working with an *informal employment arrangement* underpinning it. In the case of the customers this early experience of informal activity has arguably shaped the customer's normative and cultural beliefs. A situation which can result in these actors going on to promote informal economic transactions when the chance occurred. For example, Neil (regular purchaser of informal goods and services) discusses asking for cash discounts when dealing with small service sector businesses:

Well, I suppose most of it is just jobs around the house, maybe some gardening, decorating, and even when I have my boiler serviced, I always ask for a cash price. ...They know what I mean. (Neil – informal customer)

The influence of customer demand for IEA is discussed in Section 6.3, although the previous excerpt indicates that a shared understanding about the acceptability of informal activity exists from both a demand and supply perspective. This finding is congruent with Williams, Nadin and Windebank (2012) who identify an informal demand culture during their study of the European property and construction sector.

In most cases, early informal work experiences were related to temporary and casual employment, which was conducted alongside secondary school education, for example. These temporary and casual employment arrangements were often fully *undeclared* with no written employment contract, resulting in a cash-in-hand relationship which was never formalised. These casual work arrangements involved tasks such as washing up, serving food and drinks, or working in various shops and factories (Table 5.1). Although in other cases, these *undeclared employment arrangements* formed part of the employee's formal introduction to a working environment after

leaving formal education on a more permanent basis, a situation which allowed the actor an informal introduction to a trade. For instance, Liam (owns a heating installation business) began working on a fully undeclared employment basis as a general labourer for various builders until he eventually became formally employed as a trainee heating engineer.

Other informal employment experiences involved a formal employee receiving both a declared and undeclared wage from the same employer, making these arrangements neither fully formal nor informal as they are a hybrid (Williams, 2009b) *under-declared arrangement* (Section 5.2.2). For example, service sector trades (e.g., electrician, hairdresser or heating engineer) often involve *formal training positions*, such as those working for an employer alongside attending college on day release. These formal training roles often involved the trainee receiving a low declared wage as set by the government which was then often supplemented with IEA. This was encouraged by the employer, often turning apprenticeships into an *under-declared employment arrangement*. In practice this meant the trainee looking for extra informal work, which was supported and encouraged by the employer, or through an *under-declared employment arrangement* which was facilitated by the employer through *envelope wages*. Working informally while training for these various service sector roles was in many cases encouraged by the employer as it shortened the learning process in calendar time and increased the ability and output of the trainee. These *under-declared employment arrangements* were also used to promote the financial attractiveness of the training position by creating the feeling that extra informal wages are a perk of the job. In most cases informal activity in this study was undertaken by the trainee out of necessity.

Alternatively, other actors in this study completed a formal period of training and were then employed through *dependant self-employment* and other *under-declared employment* arrangements, after being advised by their employers that this would be beneficial to them. For example, newly qualified hairdressers and some building trades were employed on a *dependant self-employed* basis. In contrast, newly qualified electricians, heating engineers and car mechanics began their working life based on *under-declared employment* arrangements where the employer would offer *envelope wages* for working unsociable hours.

Dependant self-employment, under-declared employment arrangements and *formal training* positions are discussed next with accompanying excerpts from the interviews to support this narrative. This discussion begins with *dependant self-employment*.

5.2.1 Dependant Self-Employment

Dependant self-employment is a false employment categorisation which is also known as *disguised employment* (ILO, 2016). These type of employment arrangements are increasingly used in the *gig* economy or as part of *on-demand* style employment arrangements, a situation which relates to the increased casualisation of work (ILO, 2016). Williams and Kayaoglu (2020) outline that *dependant self-employment* refers to situations whereby an actor is formally registered as self-employed but works under the same conditions as a contracted employee while being fully dependent on one employer for their income. Actors who work under this type of self-employed contract and/or arrangement are usually work at a single job site and also receive instruction and supervision on how and when to conduct the work. The self-employment contract differs from a contract of employment as the self-employed actor is not entitled to any protection in relation to labour law such as sick pay or minimum wages whilst being expected to work in the same capacity as an employee (ILO, 2016). Dependant self-

employed actors are often expected to complete tasks beyond contract terms and keep normal office, factory or shop working hours even though they may not have paid work relating to their contract or trade scheduled – e.g. a hairdresser working on reception.

Employing actors on a self-employed basis allows the employer to simplify the contractual process and reduce the bureaucratic and financial burden (Vershinina et al., 2018). Within this study *dependant self-employed* relationships were most prevalent in the hairdressing industry, although they were also present in various building trades, such as steel fixing, car mechanics, and painting and decorating. More widely, these dependant self-employment arrangements make up around 4.3% of total employment in the EU (Williams and Horodnic, 2019) and are now becoming increasingly normal in the wider UK construction industry (Vershinina et al., 2018). Within this study these early experiences of dependant self-employment were carried forward by the now formal business owners into their daily practice. This employment cycle might continue as the findings indicate it has become a culturally accepted part of specific industries such as hairdressing.

In the hairdressing industry such employment resulted in the *dependant self-employed* actor receiving around forty per cent of their takings, with the remainder being kept by the salon owner as a contractual charge for working there, sometimes referred to as chair hire. Although the actors in this study were classed as self-employed by the business owner, the actor was exclusively allowed to conduct their profession for one employer as if they were employed. However, these actors did not receive any of the benefits of being an employee, such as holiday pay, statutory sick pay, guaranteed minimum income, pension contributions or employment rights:

We don't get holiday pay; we don't get sick pay and other benefits, that maybe someone on an employee basis gets, so say we take two weeks off work that's two weeks with no pay. (Abigail - hairdresser)

This situation leaves the self-employed individual responsible for paying their income tax and national insurance contributions: "they took a percentage and then it was up to us to work out the tax" (Gemma - hairdresser). This dependant self-employment arrangement also had a more exploitative side to it, as the individual actors had to be in the salon even if they had no clients:

I suppose especially with hairdressing it's quite a grey area. You're not really self-employed because they set the hours to suit them. I couldn't really just come and go as I please. (Abigail - hairdresser)

Abigail further elaborates on this and maintains that the employer rationalised this situation as being a requirement of the role as the self-employed hairdresser needed to be present to be able to take on new clients. This situation resulted in these self-employed hairdressers doing unpaid work, such as staffing reception areas, cleaning, ordering stock and in some cases assisting in other haircuts if needed:

No, we could only work there; you didn't have time really to work elsewhere. You had to be in even if you weren't cutting hair. You know doing reception and waiting to book people in hopefully. (Gemma - hairdresser)

In this case, these *dependent self-employed* contracts are at the request of the business owner, who is seemingly trusted by the hairdresser to provide sound business advice:

But I think it worked out better for us, well that's what they said [salon owner], and it was a better way to make the girls work harder. You wanted to have the clients in, and then you got paid for it, that sort of thing. We didn't get a regular wage. (Gemma - hairdresser)

These *dependant self-employed* arrangements, although fully declared to the relevant formal authorities, often led to the adoption of informal economic activities. For instance, as the salon owner was not responsible for the holiday or sick pay, the hairdressers worked informally outside of the salon opening times often in unsociable hours to cover absences from work such as on bank holidays, over Christmas and New Year or for annual holidays, which was also at the discretion of the salon owner. Abigail and Gemma highlights this:

So, we might try and fund that [holiday] by working a little bit extra on the side [informally]. Working on the side, as we'd call it would allow us to have those two weeks off whereas people who are employed would get holiday pay. I think that's when we struggle. (Abigail - hairdresser)

I used to do it [informal work] if I had a holiday planned to give me some extra money [...] or to cover times when the salon was shut. (Gemma - hairdresser)

Although working on a *dependant self-employed* basis in the hairdressing industry seems to be a common and culturally accepted method of employment, it is not the only employment practice, some salons pay hairdressers through a more formal commission-based wage. These commission-based wage arrangements provide a lower basic wage for the employee accompanied by a percentage of their takings from sales and the provision of services. For instance, before opening her own hairdressing business Gemma worked on a commission-based arrangement, but still conducted

IEA's as they are now ingrained into her beliefs as being an acceptable practice when she needed to supplement her income. These examples of *dependant self-employment* are based on the hairdressing industry, although other examples existed in industries and jobs, involving various building trades and car maintenance as highlighted by Hank who runs a business involving household construction services.

I suppose some friends of mine at the time who were doing similar things used to get the lads they had working for them to register as self-employed but, I don't think this was right. It just moved the problem of being formal on to the labourer who I suppose had even less of a clue on how to do it properly. Forced self-employment, I guess. (Hank – general house builder)

In the case of the hairdressers who are advised by their employers to adopt these dependant self-employed work arrangements they are also often required to sign a contract which includes a "*radius clause*" (Gemma - hairdresser). This clause forbids these hairdressers from working within a specific radius of the salon where they work upon the termination of this employment arrangement. A situation which potentially leads to an increase in non-compliance as these actors are then forced under the government radar by staying away from formal employment until the period stated in the "*radius*" clause is met.

Dependant self-employment was evidently the result of business owners promoting this self-employed route for their employees to allow themselves to circumvent standard employment terms and conditions to make cost and time savings. Working under this arrangement shifts the responsibility of formality onto the employee which, the findings have shown, can increase the adoption of informal practices. For the service sector actors in this study these *dependant self-employment* relationships presented the

actor involved with a situation whereby informal economic practices became a necessary tactic to survive and supplement their income which embedded informality.

5.2.2 Under-Declared Employment

Under-declared employment involves formally registered employees receiving both a formally declared income alongside an undeclared informal wage (Williams and Kayaoglu, 2020). These undeclared wages are often referred to as *envelope wages* (Woolfson, 2007) which, in some cases, as shown in this study, can be a strategic response by the employer to avoiding specific regulations such as national insurance and pension contributions and employment protection. The practice of under-declared employment was evident in the early experiences of those involved with this study. Typical responses about the early experience of envelope wages follow:

My first experience of informal work like I said was my first job, I was paid some wages on the books, but a majority of it was paid cash, any extra time I did was paid cash in hand. This would maybe be 25% on the books and the rest cash. I think at the time I was given about £110 on the books and about another £300 in cash each week. (Andrew - car sales)

Ever since I started there was always weekend work on side. This started whilst I was training and I used to go with the guy who was training me, and he paid me cash. (Paul – plasterer)

A situation which due to the actor's lack of experience of a working environment, appeared not to be questioned:

I just knew that I got some extra money I never really questioned it, he was the boss, after all. I obviously know now but at the time I just really needed it to survive so wasn't bothered where it came from as long as they came. (Dennis - electrician)

These *envelope wages* within the context of this study were in some cases used as incentives to work unsocial hours, which, when combined with the low trainee wage of an apprentice or early career employee became a desirable offer:

My boss was really good at doing Saturdays as an incentive [informal work arrangement]. You know what I mean. So to start with he'd be like asking me to come in Saturday for a hundred quid cash [undeclared], I mean so you've pretty much got your weeks wages on a Saturday. (Dennis - electrician)

This discussion on *envelope wages* has until now aligned with Williams (2014) definition, which covers formal employees receiving undeclared income from their employer. A situation which is evident within the data collected in this study with various actors attesting to its presence. However, in certain situations and industries these envelope or informal payments are also used as bribes or *little drinks* as the respondent refers to them as for preferential treatment by external business owners. Although these payments are not received from the employer, they are often aware of them and in many cases seen as a perk of the job which is culturally accepted and expected by the employee as they take on the job with these benefits in mind. For example, in the automotive sales industry these informal payments are a common practice which supplements the employee's official wage and increases the overall attractiveness of the job. The employee receives these *little drinks* from other car dealers, and garages in the form of cash payment in return for the first chance to buy

part-exchanged cars. Ian talks about his early experiences in the car sales industry which helped shape his current normative and cultural beliefs and therefore ongoing practices:

Some of the traders would give us a little drink [cash] for ringing them first, anything from 50 to 200 quid [pound], per car that was. When you think my basic wage was £200 a week before commission it was a nice perk. (Ian – car sales)

Ben, who was an employee at various car dealerships (although now runs a formal car dealership) confirms that these *drinks* are part of everyday activity in the car industry. Theoretically, these *drinks* are both morally and culturally supported as they have been ingrained in practice over time and are now adopted through a mimetic logic. Ben goes onto assert that this informal practice which he initially learnt as a perk of being an employee is now part of his everyday activity which he has had to maintain to remain in business:

To buy cars you have to give sales managers drinks. You know, money, little brown envelopes as such to get a chance of the cars being at the right money and the world of the car trade as I learnt quickly, it's who you know and what you're going to give them to get the lead on good stock [preferential treatment on used cars]. (Ben – car sales)

These once prized *little drinks* have now become a hindrance to Ben's current business activities. To be able to provide these cash incentives or *little drinks* to employees at car dealerships for preferential treatment Ben and other business owners require a cash reserve which is formally unaccounted for at the end of the year. This situation creates a vicious circle of events whereby the car dealer cannot declare all the income

from sales, as they need informal cash to be able to secure future cars at a competitive price and stay in business. Ben emphasises the importance of informal activity to his business by outlining that sometimes: “you have to jump in with the sharks to survive”.

Although *under-declared employment* within this study was evident within different roles and seemed to be culturally accepted within service sector businesses, it was most closely related to employment which involved formal training positions. These formal training positions often involved low formal wages which were then subsidised with informal activity.

5.2.3 Formal Training Positions

Formal training and government-backed apprenticeships are the standard, and in some cases required, introduction to work in specific service sector roles. These formal training roles and government-backed apprenticeships are widely accepted as the best routes into specific trades and professions. These training situations involve working alongside studying to gain job-specific skills and accreditations which provide the mandatory skills needed to work within many household service sector roles such as electricians and heating engineers. These trainee positions also provided the skills for many other jobs which did not specifically require a formal qualification, such as painting and decorating, plumbers and plasterers, hairdressing, and car mechanics. Although these trades are highly skilled, and the qualification is desirable, they are not a mandatory requirement.

As part of a formal training position or government-backed apprenticeship scheme actors often receive lower than standard wages, a situation which in some cases meant that extra work was needed to subsidise this low income. Table 5.2 shows the actors and the job roles associated with formal training positions which involved informal side arrangements.

Table 5.2 Formal Training Positions Involving Informal Practices

	Main Case Studies Identified In	Type of Role
Formal Trainee Positions	Abigail, Brian, Carl, Christine, David, Dennis, Ethan, Gemma, Henry, Isaac, Liam, Owen, Paul	Car Mechanic, Electrician, Hairdressing, Heating Engineer, Household Appliance Repairs, Painter and Decorator, Plasterer, Plumber.

Source: Author

This extra work was often *undeclared* and therefore informal, turning this formal training position into an *under-declared employment* arrangement, the following responses typify this situation for three household service-based actors:

I was on three quid an hour, so it was a hundred and twenty quid a week, and the tax was seven quid, so I came out with a hundred and thirteen quid. And out of that, I had to get a loan for my car because it [the job] was over in another city so, I obviously had to drive over there, so I had to get a car which involved getting a loan. By the time I was finished, I was paying about another twenty-five pounds a week for that petrol; twenty-five pound a week insurance and twenty-five pound a week board, I was left with nothing. So, we used to do a bit of cash-in-hand [undeclared income] on a Saturday as well, which really helped me get by. (Dennis- electrician)

We were not paid very well, we had to make up the money somehow to be able to survive, so as soon as we learnt to do certain jobs, I'd get out there and do them for myself. But, you know, more for family and friends to start with until I felt competent. After I did my first bathroom suite with work, I did three or four after on my own [working informally]. (Liam- Heating Engineer)

I had to do a YTS (youth training scheme) to become a painter and decorator because you couldn't get an apprenticeship. So, basically, you're on a YTS for a year, and if you're any good, they take you on as an apprentice. But basically, being on the YTS, you're on crap money. So, I had to do things like little cash jobs to get by, and I was also still down the market [informal job] when I was on the YTS as well to earn myself a little bit more doe [money]. (Henry- painter and decorator)

These informal work arrangements alongside training are seen as being a common practice, as Carl confirms: "Oh yeah most definitely. Yeah, there all at it, the apprentice wages are so poor" (Carl – car repairs). The minimum wage for a formal apprentice is set nationally by government and are currently at £4.15 as of March 2021 for an apprentice who is either under the age of 19 or in their first year of training regardless of age (Table 5.3). As an example, an apprentice aged 22 would be entitled to £4.15 per hour in their first year of training as opposed to the minimum wage of £8.20 for normal work, whereas a trainee aged 18 regardless of time served as a trainee would again be entitled to £4.15 as opposed to the national minimum wage of £6.45.

These lower apprenticeship wages appear to create an unmanageable financial strain on the apprentice which results in the extra undeclared activity being a requirement to subsidise the low formal wage. These informal arrangements not only subsidise

low income but also provide the trainee with a means to pay for the tools and equipment needed to do the actual work, a responsibility which often falls on the apprentice:

Particularly someone in the first couple of years because their money's pretty low. [...] You also have to do it because you have such low wages and you've got to buy all your own kit as soon as you can. So as soon as your skilled enough to do a particular job, you would advertise that to whoever you knew. That's common, yes, because they're on such a low wage it really helps them to boost the wages from their [formal] training. (Ethan - heating engineer)

Table 5.3 National Minimum Wages Rates

Age	Rates of Pay – March 2021
25 and Over	£8.72
21 to 24	£8.20
18 to 20	£6.45
Under 18	£4.55
Apprentice (under 19 or 19 and over and in the first year of apprenticeship)	£4.15

Source: www.gov.uk/national-minimum-wage-rates

Often, these informal arrangements are also actively encouraged by the managers, supervisors, and those responsible for training the apprentices as a method of improving the employee's skill level and speeding up their overall productivity and independence in the workplace. Gemma outlines that speeding up the learning

process meant she could become more efficient and productive and therefore more valuable to her employer “I used to do some at home [informal work], this started when I was learning to get better quicker, so I could go on the shop floor [work formally once competent]” (Gemma - hairdresser). Ethan (a heating engineer) goes on to describe that he would now actively promote this process to any subsequent actors in trainee positions as these informal work situations provide the trainee with a more varied skill set, such as learning how to deal with the public and quote for work, which is not part of a formal training schedule:

You encourage them, if you're training somebody up you encourage them to go off on their own and do a few little cash jobs [undeclared]. So, they get the experience of actually doing everything themselves. Including dealing with the money and the customers because nobody teaches you that, you need to know how to price a job and learn that side, so doing a few cash jobs helps them.
(Ethan - heating engineer)

Brian, goes a step further by maintaining that he actually helps find and often facilitates these informal work arrangements for his employees if they need the extra work:

If they came to me and said I need extra money, I wouldn't think twice about pushing a couple of [informal] jobs there way at night if they wanted to get a bit of extra cash. (Brian – car repairs)

Liam (a heating engineer) maintains that whilst in training a majority of this informal work is initially done for friends and family and therefore not formally advertised, this is a situation that allows the trainee to gain confidence before offering their services more widely. Kyle supports this:

I started out working for someone, and as you do, once I got confident in what I was doing I did some jobs for some *family and friends* [emphasis added] around the estate. On the side [informally] as I would say. (Kyle – painter and decorator)

Working on an informal basis for *family and friends* appears to extend beyond the early training stages of the actor's development and continues throughout their career. A finding which Lee confirms when asked about his part-time informal work "a lot of them are friends or friends of friends" (Lee – steel fixer). This informal work can become a social obligation which is expected by the customers when they are friends of the specific tradesperson. It can also often be inferred by the business owner in these circumstances, as Abigail highlights:

[A friend] came and looked at the job and I didn't even ask about sort of payment or prices, but he assured me he'd do it for, as he says, *mate's rates* as long as I didn't want any sort of receipts or anything like that. It was a cash transaction which suited me. I don't know how much these things should be anyway, and it suited him. So, I was quite happy with that. (Abigail - hairdresser)

The evidence from this study suggests that the low wages associated with formal training roles contributes to the need for extra informal income to subsidise formal arrangements. In some cases, these subsidies were contributed to by the formal employer, as under-declared employment. In some situations, they involved the trainee touting for extra informal work by selling their newly acquired skills. Initially, these newly acquired skills are offered to friends, family and acquaintances. This informal work may be offered to a wider set of customers through public houses,

which sometimes work as labour exchanges for informal activity (Horodnic and Williams, 2019). The IEA's conducted by formal trainees were considered as being both morally and culturally supported, as indicated by it being a taken for granted and standard practice for those involved with this study.

5.3 Institutional Carriers

At the *structural conditioning* stage *institutional carriers* are considered as being an important link between the institutional environment and future individual decision making. For any message concerning the institutional environment to have any long-term influence on practice depends on how messages are delivered to the actor and by whom (Scott, 2014). This study argues that for any institutional message concerning the illegitimacy of formal rules or the acceptability of IEA to become embedded in the actor's practice is dependent on the influence of the actor who delivers it. Understanding who the most influential actors are at the *structural conditioning* stage is important as it helps to explain why an actor would consider informal activity acceptable.

Within the *structural conditioning* stage of this study, employers and supervisors have been shown to promote informal activity through the various *informal employment arrangements* outlined in this section, namely *undeclared employment*, *dependant self-employment* and *under-declared employment*. Employers and supervisors are often looked upon for guidance by those undergoing mandatory training or venturing into the working environment for the first time. The findings in this chapter show that the early guidance supplied by the employer or supervisor extends well beyond instruction regarding formal rules and regulations of the specific trade, as employers and supervisors also promote IEA. This study finds that employers and supervisors

become *institutional carriers* who, in some cases, directly promote non-compliance. IEA may also be indirectly promoted by the employer unknowingly through the various work arrangements they offer, as observation of informal practices can also have a causal effect on future activity. Regardless of the direct or indirect promotion of informal activity the informal actions and messages these employers deliver has a lasting effect on the messages "stickiness" (Scott, 2014, p. 97) due to the relative power they have within the employer/employee working relationship.

Employers act as trusted advisors who are *corporate agents*, working in an organised way to shape the context for other actors, such as their trainees and other employees (Archer, 2013a). The employers, through their extended time in the market and specific trade knowledge, have a better understanding of their own specific goals and act to achieve them (Archer, 1995). At this stage the employees are *primary agents* because they lack power in the current working and learning situation to be heard (Archer, 1995). For example, in some situations, these employers may be focused on achieving cost savings through the strategic use of informal employment relationships. Alternatively, they advise the employee to work informally to learn the trade quicker and become more productive in their formal role; either way, they have a clear idea about their own goals and vested interests which may be hidden from or unclear to the employee.

Employers and supervisors are considered to be acting at a different stage of their own morphogenetic cycle; for instance, these employers have gone through a *structural conditioning* stage of their own whereby informal activity has been embedded within their practice. Based on this early learning, these employers have gone on to develop their own interests and individual projects. The employers are operating at the

interaction and structural elaboration stage of the cycle by introducing informal economic practices into their work. This process carries the belief that informal activity is acceptable and legitimate back to employees in this study who are at the *structural conditioning* stage of their own cycle. Indeed, many actors in this study adopt IEA's based on a mimetic logic throughout their careers and the later stages of the morphogenetic cycle, they then become *corporate agents* by transmitting these beliefs to future employees. This situation provides *structural conditioning* for the next group of actors who are the employees of the current primary respondents in this study. This circular process indicates the presence of multiple ongoing morphogenetic cycles which help support the perpetual existence of informal activity within the service sector.

I don't think you ever could as long as we've got small businesses it will always carry on, because we need to, I don't know what the answer is. I don't think there's a way to make it all fairer so think it will always go on. To some extent, it might shift and change in its appearance, but there will always be people who need to work off the books [informally]. (Isaac - plumber)

5.4 Normative Beliefs and Cultural Acceptance

Early experience of informal employment *structurally conditions* actors to accept IEA as a legitimate and culturally supported form of behaviour. Informal activity is so culturally embedded that it has become a recognisable part of day-to-day business activity in the service sector. The following responses typify these beliefs, "Yes, from my experience its fairly common for people to work in this sort of way" (Andrew - car sales); "In the motor trade, it's quite common" (Brian- car repairs) and "Basically, in the painting and decorating trade it's a big thing. It is a big thing because of private work or working for builders" (Henry- painter and decorator). Finally, Robert

(landscape gardener) asserts that "It's okay isn't it, it's just normal if it didn't go on in the building trade in general nothing would get done".

With a majority of the respondents believing that IEA exists well beyond their profession and experience:

All my friends do a little bit on the side regardless of the profession; for example, I have friends that work in more office-based jobs who do some freelance work on the side. (Lee – steel fixer)

Although these formal business owners outline the general belief that non-compliant economic activity is considered as legitimate, they also assert that they want to conform to the formal institutional rules but feel they cannot. With some believing that compliance is simply "the right thing to do" (Isaac - plumber) and others showing a high level of disapproval, by stating that IEA is not an acceptable practice: "I don't think it's acceptable in any circumstances, you should always try to do things right [formally] but sometimes you can't" (Oliver – car repairs). With Brian differentiating between activities by outlining that some practices are far less acceptable than others "I think if you're on the dole [job seekers allowance] say or claiming disability benefits and working, then I believe that is totally wrong" (Brian- car repairs).

Some actors maintained that extended exposure to unfavourable market conditions and the existing normative beliefs regarding the acceptability of informality appeared to rationalise their non-compliant behaviour by accepting that it is inevitable "I would have loved it all being right, but it wasn't meant to be" (Freddie – car body repairs). In other cases, actors discuss that the continued fear of detection by formal institutions would motivate compliance if they felt that it was possible. "Yes, you're always

looking over your shoulder, I hate operating this way but like I said, I wouldn't survive without doing a bit [of informal activity] here and there" (Kevin – car sales).

This general consensus about the acceptability of informal activity was present throughout this study which highlights the level to which informal activity has become culturally embedded. In some instances, this has meant that informal economic behaviour is now considered to be not 'really illegal':

There are other things I could do that would be *really illegal* [emphasis added] if I didn't care about anything, but I don't, I only do what I think is acceptable.
(Kevin – car sales)

From an institutional perspective, informal activity works through the logic of appropriateness and orthodoxy. The micro-level decisions of the actors in this study are based on individual consideration of their context, their need to survive and what is considered as a legitimate response given prior *structural conditioning*. This process is, therefore, opposed to a rational economic view, which may see non-compliance with formal regulation as merely being a simple plan to achieve higher profits.

5.5 Chapter Summary

This chapter has presented and discussed the findings from this study which relate to the *structural conditioning* of decision making, as outlined in the conceptual framework (Chapter 3). Archer (1995) maintains that this stage of the cycle provides an explanation as to why an actor would consider a specific action or social practice as being an appropriate and acceptable situational response in a given set of circumstances. These findings have provided an explanation of why an otherwise

formal business owner, such as those involved with this research, would consider IEA as an acceptable and legitimate situational response at certain times.

The findings from this study have indicated that the *structural conditioning* stage is characterised by the early exposure of actors to various *informal employment arrangements* which embed informal activity into practice. The findings show that all of the service sector actors in this study have previous experience of working under *informal employment arrangements* which significantly contributed to the creation of normative beliefs regarding the acceptance of informal activity. In alignment with the conceptual framework and the Three Pillars approach (Scott, 2014), this *structural conditioning* stage and the various *informal employment arrangements* (such as *undeclared*, *under-declared* and *dependant self-employment*) have established IEA as a comprehensible, recognisable and culturally supported form of economic behaviour, which in many cases is now a taken for granted part of day-to-day business activity.

In the early stage of the morphogenetic cycle, namely *structural conditioning*, by observing and being involved with *informal employment arrangements* early in their careers the actors in this study have developed the understanding that informal activity is both morally and culturally acceptable. These beliefs go onto become part of the actor's repertoire of knowledge and activities, which may or may not be drawn upon, much like the ability to perform a particular trade or task when needed. For example, these early beliefs once embodied and accepted as being legitimate by the actor are then carried into their day-to-day activities as the result of a normative and mimetic logic, whereby the actor replicates informal activity based on previous experience and understandings or as a result of the belief of its overall acceptability.

By replicating these previous experiences, the actors further culturally embed informal activity at a wider societal level. However, any account of the emergence of informal activity from the institutional environment must also explain the situational circumstances which actualise these previously formed beliefs about the acceptability of informal activity. Indeed, the existence of this normative belief and cultural acceptance of informal activity alone is an inadequate explanation of informal activity from the generative causal approach outlined in the conceptual framework (Section 3.3). Although the actor has been *structurally conditioned* to accept the legitimacy of informal activity, they do not necessarily adopt these practices as a default setting which is evidenced by the service sector actors in this study operating primarily formal businesses.

The focus of the next chapter is on the *interaction* stage of analysis to understand the institutional environment and conditions in which the individual actor works. Chapter 6 relates to the next stage of the conceptual framework (*interaction*) and considers the institutional circumstances which actualise this prior *structural conditioning* regarding the acceptability of informal activity, to understand why the actor switches between formal and informal economic behaviour.

Chapter 6 - Interaction

6.1 Introduction

Interaction is the second stage of the morphogenetic sequence. This chapter is focused on exploring why, and under what institutional conditions, early normative beliefs and the cultural acceptance of informal economic activity (IEA) becomes actualised. In alignment with the extant research on the informal economy (Section 3.2.1), the *interaction* stage of this study is focused on understanding how formal regulations fail to appropriately govern economic activity. At the early part of the *interaction* stage (T^2), actors were considered as *corporate agents* as they act in a strategic way to achieve their own goals and projects. At the *interaction* stage of morphogenetic cycle (T^2) the actors are now equipped with newly acquired trades and skills which have seemingly helped to facilitate the overall goal of running their own formal business, along with the associated vested interest of profiting from these entrepreneurial activities and skills. The findings outlined in Chapter 5 indicate that previous exposure to *informal employment arrangements* can generate a deeply embedded belief that IEA is both normatively and culturally acceptable in certain circumstances.

6.2 Formal Institutional Failures and Imperfections

The empirical findings from this study show that the *interaction* stage of this morphogenetic cycle is characterised by a heterogenous but relational set of formal institutional failures and imperfections. These positively influence the adoption of IEA. For a variety of reasons, the formal rules and regulations may become too costly, burdensome and problematic for actors in this study to comply with. These findings are congruent with the typology outlined by Williams (2019) who asserts that formal institutions can fail or imperfectly govern economic activity in four main ways which

can all increase the overall prevalence of IEA and dependence on informal institutions. This chapter is structured along these lines; *institutional voids and weaknesses*; *institutional instability and uncertainty*; *institutional powerlessness* and finally *institutional misallocations and inefficiencies*

Institutional failures and imperfections are shown to impede any form of entrepreneurial flow, meaning that IEA becomes the most appropriate (and in many cases effective) situational response to the contextual environment. The various formal institutional failures and imperfections which are related to this study are outlined in Table 6.1. This table provides an overview of which categories of formal institutional failure are most influential in the various cases in this study.

Table 6.1 Regulatory Factors Theme

Themes		Case Studies Identified In	Type of Role
Institutional Weakness	Rules and regulations which fail to govern business activity appropriately.	Abigail, Andrew, Ben, Brian, Carl, Christine, Dennis, Ethan, Ewan, Freddie, Henry, Isaac, Kevin, Kyle, Liam, Oliver, Owen, Peter	Car Body Repairs, Car Repairs, Car Sales, Car Valeting, Electrician, General Builder, Hairdressing, Heating Engineer, Painter and Decorator, Plumber
Institutional Uncertainty	Misunderstanding of the formal regulatory requirements.	Andrew, Ben, Dennis, Ethan, Hank, Liam, Owen	Car Sales, Electrician, General Builder, Heating Engineer
Institutional Powerlessness	Government depicted as powerless to enforce rules and regulations on all business activity equally.	Abigail, Andrew, Ben, Christine, Dennis, Ethan, Ewan, Freddie, Hank, Henry, Isaac, Kevin, Kyle, Liam, Oliver, Robert	Car Body Repairs, Car Mechanical Repairs, Car Sales, Car Valeting, Electrician, General Building Services, Hairdressing, Heating Engineer, Painter and Decorator, Plumber

Source: Author

6.2.1 Institutional Weakness

The over-regulation of the economic market is seen as a *formal institutional weakness* which increases the financial cost of doing business. These costs are often directly related to profit, although the actors in this study also highlight that over-regulation can also be related to financial costs associated with the extra time needed to comply. These *formal institutional weakness* manifest as overly burdensome rules which businesses must comply with to be considered as formal. From a neo-liberal lens, this over-regulation leads to business owners opting out of the formal economy (Williams, 2019). Ireland and Webb (2015) outline that these weaknesses can also be inefficiencies that present themselves as high taxes and costs which relate to registration, regulation and licensing, which ultimately lead to higher levels of informal activity. Williams and Schneider (2016) find that indirect tax and a lack of business freedom are significant causal variables which positively affect the size of the informal economy in the United Kingdom.

Within these findings, regulations relating to indirect taxes such as Value Added Tax (VAT) and other rules which restrict business activity such as labour law are positively associated with the decision to adopt informal economic practices.

Value Added Tax (VAT)

Within the findings VAT regulation is shown to negatively affect the businesses' profitability and, in some cases, overall sustainability. Many of the small business owners highlighted within the discussions that they did not consider a direct tax on business profits to be a problem. However, they did consider indirect tax regulations, more specifically VAT to have led to numerous problems due to the financial and regulatory burden they created:

I don't mind the tax, I've had to cope with that for a long time, but this new one [VAT] is blowing my mind, and no one explains it, you sort of go from hairdressing to running a business and no one's ever told you how to run a business. (Abigail - hairdresser)

The financial issues associated with VAT compliance were especially relevant in this study as the sample is related to labour-intensive service industries which only deal directly with private customers, such as hairdressers and household service trades. Abigail who has recently had to register for VAT as her turnover has just exceeded the threshold for registration highlights the main issue "at the minute I'm earning less than I've ever earned because I've gone over the VAT threshold" (Abigail - hairdresser). Christine also discusses the effect of VAT registration on her hairdressing business:

We opened the shop about a few years ago now, and although we now have more customers and some staff we're actually earning less. We had to register for VAT, and that's really hurt us. (Christine - hairdresser)

VAT is a formal mandatory regulation; businesses have to register for VAT once they hit a specific turnover threshold (currently at £85,000 in April 2020). The rate chargeable for VAT can vary depending on the goods and services sold, and the scheme to which the business is signed up to. This figure is currently at 20% for most products and services businesses involved in this study provide. Once registered for VAT each business in this study had to charge an extra 20% on all goods and services, these payments are collected for, and are payable to the HMRC directly each quarter. VAT registered business can then reclaim the VAT that they pay on goods and services purchased for the day-to-day running of the organization, as long as the business they

are purchase from are also VAT registered. The government also offer a flat rate scheme whereby reduced rates are payable to the HMRC in return for not reclaiming VAT on goods purchased, however this situation still involves a price increase for the customer. Consequently, this regulation caused a financial problem for the businesses involved with this study which were registered for VAT and dealt solely with private customers. As a result of this extra increase in the cost of the services, in all instances the business owners feel that they could not pass this cost directly on to the customer:

We didn't feel that we could just put our prices up 20% to cover this, so we just had to take the loss ourselves. So, we will see how the price increase affects these customers but were only going up about 5% I don't think we could explain the whole lot to them [the full 20%]. They wouldn't understand would they, to be fair I don't, so fingers crossed we don't lose any. (Christine - hairdresser)

Evidently, this situation resulted with the individuals earning less as the business covered much of the extra 20% cost themselves. In other scenarios and different trades, VAT added to quotes led to a loss of business as the prices quoted can be considered excessive by customers who have also received quotes from businesses which are not registered for VAT:

VAT registration is a problem in the sense that when I add it to the cost of jobs for private people, it can make my prices appear high when they've had quotes from people who are not registered. Meaning I don't get the work. (Dennis - electrician)

Complying with VAT is really hard, and although my accountant does it all for me, I still have to pay that bill, it is difficult sometimes. Trying to charge VAT

to [private] customers can be a problem as firstly it puts the bill up and secondly, they don't see why they have to pay it. (Oliver – car repairs)

VAT registration not only resulted in a direct financial cost to the business but also the loss of time as the business owner needed to manage the extra administrative burden associated with compliance. This formal compliance with VAT requirements also led to other monthly financial costs for the business as from 1st April 2019 VAT-registered organizations and individuals now have to use online software to file mandatory tax returns:

When I started this shop, I was better off financially, now there's five of us in here, and we have less profit as we now have far more to comply with, and also that VAT bill. Alongside this, due to the growth of the business, I now have more paperwork to do which now takes up some evenings or weekends all for less money. It's crazy really; I have considered getting rid of everyone and going backwards slightly, so we don't have all the extra things to do. Unless you're doing it, you don't realize how stressful running a business can be. (Abigail - hairdresser)

The service industry businesses that are contained within this study are primarily labour-intensive; therefore, labour is the main cost of production. Being labour-intensive means that there are only a few areas in which VAT can be claimed back by the business owner such as the few supplies and materials which are needed to execute the various services the actor may provide:

Becoming VAT registered has made me need to do it more [informal activity] because, you know, the extra bit of VAT that comes out of the business far

outweighs what I can claim back, so it leaves me going backwards. (Andrew - car sales)

Christine emphasizes the impact that compliance with VAT regulations has had on the business by discussing that at some points, it got so difficult she considered closing the shop and downsizing. A situation which was avoided by adopting some IEA's which allowed her to compensate herself for the loss to income which resulted from VAT registration:

No, we wouldn't be here now, to be honest, once the VAT came in, we would have shut the shop or reopened as a smaller one if we couldn't have done it [informal economic activity]. (Christine - hairdresser)

These previous discussions have focused on exploring the issues that being VAT registered had created, which in some cases led to the adoption of informal strategies to compensate the business owner for the costs associated with registration. However, some respondents considered this regulation so excessive they managed to avoid registration by adopting other strategies. For instance, Ethan adopts a strategy by which the customer pays directly for the parts from the supplier.

I'm not VAT registered. So, I don't get involved in that at all, so that's great, I've been advised to stay away from that. Like I said I've been told to stay under the threshold, so I order all the parts for a job and the merchant rings the customer directly to pay for the parts. I intentionally stay away from that big time. (Ethan - heating engineer)

Ethan's primary source of income as a heating engineer is attributed to installing new gas central heating boilers and associated services. During the discussion, Ethan

outlined that the cost of the parts required for each job is typically higher than the cost of labour. By adopting the strategy discussed in the excerpt above, Ethan can half his overall yearly turnover, and as a result, avoids VAT registration and its associated administration. In practice, this strategy involves Ethan ordering the materials from the supplier; the customer is then directly contacted by the parts supplier to pay the invoice. The result of this process means that the customer is then only invoiced directly for labour charges by Ethan, who can then avoid meeting the turnover threshold for VAT registration. Although this practice is not illegal, this process and the manipulation of the situation to avoid formal regulatory compliance promotes the belief that the formal institutions are powerless (Ireland and Webb, 2015). This perception of government powerlessness can contribute to a more casual view of the law overall (Williams and Windebank, 1998), leading to more IEA. “I’ve been advised to by my accountant to do *whatever I can to not have to register* [emphasis added]”. (Ethan - heating engineer)

Ethan's previous comment also highlights that the decisions he makes concerning his business activity may also be influenced by outside advisors, such as his accountant, who acts as a regulatory agent. This finding is consistent with previous studies of informal activity which show how external networks and accountants can promote and support non-compliance (Ram et al., 2019). This strategic response by the business shifts the responsibility of the parts onto the customer as they have paid directly for them, thereby reducing the business owner's liability concerning warranties. This strategy is also adopted by Isaac, who highlights advice he has received from his wider community of practice, such as other business owners. Advice which will then arguably be passed on further leading to a greater shared understanding and contributing the overall cultural acceptance of informal activity:

Well, I've been advised by everyone to avoid VAT at all costs [emphasis added], so I'm always under the threshold for that. Even if that means not declaring income on some jobs, days or even weeks and months if I'm close to it [going over the VAT threshold... Getting the customers to pay for the materials also helps with this because it's based-on turnover, not profit. (Isaac - plumber)

This response by Isaac outlines other strategies which can also be adopted in response to the VAT threshold, such as under-reporting turnover on business tax returns. Isaacs's response also demonstrates that these service sector businesses can and often do switch between formal and informal strategies for different jobs and customers over different periods. This finding is significant alone, as it suggests the need to stop using a formal and informal binary when researching informal activity as many businesses alternate between the two poles. The decision to alternate between formal and informal, as shown in direct quotes in this chapter, is clearly influenced by formal institutional factors – such as failures and imperfections.

Ben, who owns a car sales business implies that avoiding these regulations leads to the development of a more casual view of the law by stating that although he has had to register for VAT, there are always ways around regulatory requirements “It's not a problem, I pay a firm of accountants to do that for me and they can only work on what I give them. So, everything is duckable [Avoidable]”. Ben goes on to outline the possible source of this casual view of the law by discussing his earlier formal work experience within large car dealerships:

I know from working at large dealerships that [they] do what I do as an individual in a small way, and they'd probably get away with it because they can. Saving VAT on selling cars, writing cars up and down as it suits them,

back VATing, invoicing at the end of a VAT quarter for vans. Selling trucks that are not VAT qualifying but private people buy them, so adding it to the price anyway - they can't claim it back because they're not VAT registered. (Ben – car sales)

The discussion with Ben further highlights the importance of past experiences on future practices when considering the legitimacy of the formal rules and regulations, as outlined in the *structural conditioning* stage of this study. For instance, in the morphogenetic cycle, early exposure to informal working practices leads to the generation of norms, values and cultural beliefs about the acceptability of informal activity. These findings show that this can lead to a more casual overall view of the law which leads to decreasing compliance with formal regulations (Ireland and Webb, 2015). The influence of past experience on future practice as outlined in Chapter 5 was also significantly linked to all other respondents within this study, regardless of participation as a primary or secondary respondent i.e., business owners, customers and employees all previously worked informally at some point in their career.

Labour Law - Informal Employment

Evidence from respondents indicates that labour law is sometimes considered as an institutional weakness, constraining business activity through overly burdensome, costly and hard to follow rules and regulations. These formal employment regulations resulted in non-compliant economic activities being adopted to avoid costs associated with compliance. Avoiding regulatory requirements allowed greater operational flexibility, which was needed in some cases. This section provides the evidence for these points. Failure to comply with these formal regulations was also associated with a lack of understanding in some instances, such cases are discussed in the *institutional uncertainty* section of this chapter (Section 6.2.2).

Avoiding labour law and employing individuals informally generally involves paying employees undeclared cash payments in return for the provision of labour. These cash payments are often called *off the books* or *envelope wages* (Williams and Horodnic, 2015). An off the books system of payments results in paid employment situations without the benefits of a formal contract. In some cases employers also fail to abide by other regulations such as health and safety legislation. As outlined in the political economy approach (Section 2.3.2), these *informal employment arrangements* are often associated with the lack of worker protection, employment rights, minimum wages and job security (Williams and Windebank, 1998). Other actors in this study who had previously experienced *dependant self-employment* (Section 5.2.1) also went on to promote *informal employment arrangements* to maintain flexibility, save costs and remain competitive (Godfrey, 2011). In some cases, a lack the knowledge and time to maintain formal employment arrangements also contributed.

Informal employment arrangements can sometimes provide benefits for both the employer and the employee; they can also allow the employee an increased level of control (Maloney, 1999). The evidence from this study suggests that these informal arrangements do appear to be mutually beneficial for both the employer and employee:

Its common over a short term so, for example, you'd be like come and work for me for two weeks I'll give you eighty quid [pound] a day or whatever or maybe I'll give them five hundred quid for a couple of weeks. Its whatever deal we have and how competent they are if it's just cleaning up, they would get less, that's the sort of deal I have with them. There are loads of people willing to help out when needed that can't find proper jobs. (Dennis - electrician)

In many cases informal employment relationships are seen as culturally acceptable and/or expected (Littlewood, Rodgers, et al., 2018). The findings from this study support the points outlined from the extant literature regarding the increased flexibility, employee control and cultural acceptance.

Informal employment arrangements are described within multiple cases as a common and recognizable practice, which is legitimate through an institutional lens (Scott, 2014). These informal arrangements seemingly provide the business and the employee with flexibility, and also a method of cost-saving which allows the business to meet market demands. These situations appear to be actively promoted by both the employee and the employer in some circumstances:

Depending on the job or the travelling requirements, we agree how much they get paid and what they have to do beforehand, and that's it really. I didn't need them all the time and can't afford to pay them properly so I can say for the jobs where you didn't really need to know the trade, they provide a good flexible workforce for me. (Kyle – painter and decorator)

Sometimes you might have to employ someone off the books because you can't afford to do it right or that person might want the flexibility to not be tied to you. Like I say some people want to be off the radar completely [not exist on government databases] don't they. (Carl – car repairs).

Informal employment relationships are not necessarily the result of pressure from the employer, as some previous studies have highlighted (see Woolfson, 2007), or detrimental to the employee (see Shapland and Heyes, 2017). For instance, many of the respondents in this study highlight that this work arrangement is in demand

“there are loads of people that want to work like this, it really suits some people. I've employed one or two like this, and they tend to stick with you” (Kyle – painter and decorator). Moreover, Andrew focuses on the fact that formal contracts and arrangements are not always desirable:

The people that I pay to come and do this work probably won't want a contract; they won't want to be contracted to me anyway. Over time I've had multiple different people that worked for me in this way while they've been between jobs or short of cash.

Working without a contract really helped me out when I needed it. I suppose some people are exploited in this way, but like I said, I have had positive experiences working for people in this way. I didn't claim benefits. I worked cash-in-hand instead. (Andrew - car sales)

The informal employment relationships throughout this study were seen as being a positive situation for both the employee and the employer. These findings are in contrast to other studies of the informal economy, which see informal arrangements being forced on the employee by the employer. By not complying with the formal mandatory labour laws, these otherwise formally registered businesses can meet high market demand over a short period through the flexible terms which underpin such employment arrangements. Inconsistencies in demand for the services offered by businesses in this study meant more permanent positions could not be offered:

To help out on bigger jobs. Yes. Yeah. Yeah definitely. That happens. Well, you don't need somebody full-time, so yes you may need them one day or maybe even for a couple of hours. So, you don't need them all the time. They're happy with that arrangement. Yeah. Always happy. That's arranged first. Talked

about first and if both parties are happy, then go ahead. (Ethan - heating engineer)

With many businesses adopting these informal work arrangements as they feel they would not be able to keep up with the financial commitment of a full-time formal arrangement. For instance, Liam states:

Occasionally I'll employ someone on a cash-in-hand basis to help me out on a big job to get me out quicker [finish the work], and I do that purely because I couldn't afford to have someone working with me all the time. (Liam – heating engineer)

The previous excerpts have shown *informal employment arrangements* as a strategy to avoid the costs associated with formal employment. Although, these savings are also considered worthy of being shared with the employee, due to the flexibility they allow. In some cases, this resulted in the business overcompensating the employees for the lack of a formal contract.

They turn up; they help do the job, and you give them their money. I mean they're more than happy. It's helpful to them; it's not like slave labour and that sort of thing they're happy with what they get. I tend to pay more to allow for the fact that they've got no contract. (Dennis - electrician)

I've paid some of the good lads far more than any sort of minimum wages, but I can only do that because they don't have a contract. (Ewan – car valet)

The above quotes highlight that the savings generated through the avoidance of pension, tax and national insurance contributions are not necessarily associated with

achieving higher profits, as some of these savings are passed on to the informal employee.

The *informal employment arrangements* in this study appear to have a positive impact on the businesses involved. However, these cash payments are reliant on undeclared income to support them, as this is the primary method of payment for these arrangements. This can cause problems over long periods unless the business is operating on a mostly informal basis or has a large undeclared cash reserve.

I do it to get by, there is no way I could keep going if I conformed to everything, sometimes I have to have some people help me, so I pay them in cash but to be able to do this I need to take some cash that's not recorded. (Robert – landscape gardener)

This provided problems for the actors involved in this study who operated a mainly formal businesses, they therefore could not sustain *informal employment arrangements* in the long term. Dennis explains:

You'd eventually run out of cash to give them, and it would interfere with your business. So, unless your sat on a pile of undeclared cash, it's always traceable, say you've been paid three grand [£3000] for a job [undeclared], then you can fund [pay] somebody for the next few weeks [informally]. It can't ever be a long-term solution, can it as you need to do more and more off the books to keep paying them. But it does help them and me out when I need it because I couldn't take these people on properly [formally]. I mean it can't be a constant way of working. I suppose it also looks like on the books that you're making more profit on a proper job [declared] than you actually are because on paper

it doesn't show what you've spent on labour to help complete the job meaning a bigger tax bill. It's one of the first things that an accountant warns you about as well cause like I say if you keep taking money out of the business to pay someone cash, they [The HMRC] would want to know where it's gone.

I had a mate who was a landscape gardener who snookered himself [caused problems] because he had a long-term worker who was on cash basis, but the jobs stopped coming in for cash so he couldn't pay him anymore. The lads jobless now and probably signing on [claiming benefits]. (Dennis - electrician)

Unintended Consequence of Informal Employment

During the interviews, the unintended benefits of informal employment relationships for employees were described. Evidence was available that these informal work arrangements appeared to improve the social mobility of the employees involved, leading to formal employment opportunities in some cases. In other cases, these informal employment situations are seen as a recognizable and appropriate means for the employer and employee to support each other.

We took a couple of young girls on to help out here and there and could only pay them cash, one of them worked out, and she's now on a contract [formally employed within the business]. (Christine - hairdresser)

I have lads come and work for me; I don't give them a contract or anything. Some of these just labour on big jobs and some are skilled and employed, but some are also self-employed like me, but I just pay them cash were just helping each other out. (Isaac - plumber)

Improvements to the social mobility of those involved with informal employment are identified in other scenarios in this study which sees the unemployed, and those on lower regular incomes (such as pensioners) gaining an unofficial income subsidy; "I used retired guys to do a bit of driving, picking cars up and pay them cash to supplement their pensions" (Ben – car sales). The benefits of informal work also extend to those who cannot maintain formal employment arrangements for other reasons. Ewan who runs a car valeting business near a local council housing estate emphasises these points:

They're more than happy with what they get, and they're happy working on that basis it saves them going another way I suppose. Yeah, one of the lads an ex-employee the other day commented on how many young lads I've saved; I didn't know I'd saved them I just gave them a job, and that helped them. I tried to nurture them in a way with a work ethic and that, and apparently, it turned out that I've got a few kids off the street. I didn't realize that I just thought you come to do a job let's get on with it and get paid. (Ewan – car valet)

During the field work the opportunity arose to speak with two informal employees as facilitated by a locator. One employee agreed to be formally interviewed (Flynn), and voice recorded, whereas the second employee would only allow notes to be taken (Richard). In both instances, fully informed consent was obtained for these supplementary interviews. During the first discussion, Richard stated that many of his friends have ended up breaking the law as a result of not being able to secure formal employment and ended up in prison whilst trying to earn an income. Richard further outlined that his informal job had given him a sense of responsibility, money and freedom which had saved him from turning to this life of crime, a path which he had watched many of his friends take. When asked why he did not work formally, he

openly discussed that he had underlying problems with alcohol and drug addiction and was unable to commit to, or even obtain a full-time formal role. These addictions had therefore resulted in him seeking out informal opportunities in the first place. The second informal employee, Flynn, went on to say:

It's given me flexibility and allowed me not to have to claim benefits. I couldn't have afforded to work on the books. Like I said, I went the wrong way a bit and don't think I could have ever got out of the hole I was in without it. It allowed me to keep some dignity, I suppose, and it's given me a purpose. Working like I do, I earn more and get more respect; I also have some independence again.
(Flynn)

Flynn had got himself into previous money problems which had resulted in enormous debts with both formal businesses and the magistrate's court through fines. Flynn goes on to further describe the opportunities these informal arrangements had given him and others:

Look at this guy I've worked for on and off he's helped loads of us. He's given loads of us a chance off the estate I know at least five or six lads that could have gone the wrong way. They're all working properly [formally] now, married with kids and that, and they all started working for cash they all loved it because it was proper pay for a proper day's work. I mean it was hard, but through that job, they have ended up meeting other businesspeople and got proper jobs paying everything and conforming [formal work]. (Flynn)

These informal work arrangements also appear to provide further benefits; for instance, they provide skill development opportunities which have resulted in formal employment arrangements and increases in confidence and social capital. Other cases

evidence that individuals who were originally taken on informally are now officially employed while working towards a formal qualification through apprenticeship schemes:

The lad I've got now started that way, he was just out of uni [university] and couldn't get a job. I mean his degree is nothing to do with my trade, but he was out of work so I said he could help me on a couple of jobs. He seemed to really enjoy it and was good from what I saw, so he's now all legit [formally registered] and on the books and doing all his training properly. (Dennis - electrician)

The young girls we are training would be unemployed if we weren't able to employ them off the record to start with. (Christine - hairdresser)

These findings are consistent with existing research. Other studies show how *informal employment arrangements* can increase social capital and confidence (Barbour and Llanes, 2013); improve work ethic (MacDonald, 1994) and allow skill development and formal employment opportunities (Cano-Urbina, 2015). Afterall, as Williams and White (2020) assert, formal employment is not always the dominant and preferred arrangement by citizens, as these findings show.

In conclusion, the conscious implementation of different informal strategies and activities by the formal business owners in this study appear to be in direct response to formal *institutional weaknesses* such as the over regulation of the economic market. *Institutional weaknesses* are not used to explain a lack of power; these weaknesses are about formal institutional rules which failure to govern the economic environment appropriately or achieve their desired intention. For instance, at the macro level, the

rules and regulations are intended as direct control systems (North, 1991) used to constrain and regulate behaviour (Scott, 2014) through coercive measures. Although the findings within this study have highlighted how parts of this control system appear to generate the very thing they aim to eradicate (informal activity) meaning that these rules and regulations can be considered as an *institutional weakness*. The problem here is not the government's power to enforce rules; it is the rules themselves, which are weak and problematic. For the service sector business owners in this study avoiding these rules and regulations is although a rational response, the aim is not to profit through non-compliance it is to merely avoid the financial costs and time penalties which are associated with compliance. Often the financial benefits are passed on to employees in exchange for flexibility, and to customers through lower prices which allows the business to remain competitive and sustainable in the longer term.

6.2.2 Institutional Uncertainty

Within the first wave of institutional theory (see Section 2.4.1) non-compliance is also seen to be the result of *institutional instability and uncertainty*. These forms of institutional failure often relate to developing or transitional contexts where rules and regulations often change (Williams and Shahid, 2016). The rules and regulations in developing economies can also be considered as unstable when they are seen by society as not belonging to the country in question. This situation may happen when the rules and regulations are imposed on the actors by "supranational institutions" (Williams, 2019, p. 31) which do not align with particular cultural and normative beliefs held in the country. This study is based in a developed economy where rules and regulations are commonly considered to be more stable and certain, although the findings still indicate a significant lack of overall institutional understanding on the part of some actors. This lack of understanding seemingly contributes to non-

compliance due to *institutional uncertainty* and confusion of how to apply the formal rules and regulations:

I did what I could legitimately and straight, but you always have to duck and dive a bit as well [operate outside of the formal rules]. I would have to employ some lads as labourers off the books here and there to *keep costs down*; also, *I didn't have a clue how to employ them properly* [emphasis added]. I have a lot of friends in the trades that did work for cash. (Hank – general house builder)

Although Hank discusses that these informal work arrangements are adopted to keep costs down, non-compliance is also a result of a lack of understanding. Liam (a heating engineer) also acknowledges a lack of practical knowledge around employment arrangements; "to be honest. I wouldn't know how to pay someone on the books for a day".

This lack of understanding about mandatory rules and regulations can cause other financial problems specifically related to VAT, whereby the miss-understanding of mandatory requirements resulted in large and unexpected VAT bills, which ultimately led to some businesses having to shut down:

I should have registered for VAT, but I had no idea about it. So, I should have been charging it on top of the jobs but didn't know. This means I was underpaid, and I wasn't saving the VAT for the bill, it really did spiral out of control. One minute it was just me nice and busy and doing ok. Next thing had a big VAT bill that I hadn't accounted for. (Kyle – painter and decorator)

Although Kyle went on to set up another business, he still had to pay the fines and previous VAT bill, which resulted in further informal economic practices being adopted to survive:

In my opinion, the only time I've ever felt pressured was when I ended up with the big VAT bill; I had to pay this back, so all of my formal work, shall I say went to get the bill paid off. But I still had to live, so I put more through informally while I was trying to clear this [debt]. Also, when I first set up again after the bankruptcy to get some money together to get going again, because I'd lost everything, I resorted to doing more cash jobs to save some money. To get a van and pay the merchants off who I still needed to use. (Kyle – painter and decorator)

Henry (another painter and decorator) also fell into bankruptcy from a lack understanding of his business. His inability to manage business accounts resulted in him using the money put aside for VAT to pay wages. A process which at the time was considered necessary as work slowed down and some of the larger companies, he worked for failed to pay invoices on time. This resulted in a lack of cash in the businesses to pay staff, which again resulted in government fines and bankruptcy:

Yeah, and in the end, cash was starting to cause a problem because you've got seven blokes [formal employees], probably on £500 a week [each]. Say that's £3500 you've got to find before you even look at materials on top of that. So, cash flow started to become a problem, while I had the work it was ok, but then I was using some of the VAT to pay the wages. The VAT never went back, and I got behind. In the end I got so far behind with the VAT, which then caused a bigger problem because the work went slow. Really slow, in a recession. So, I

had the VAT man on me back and basically then, in the end, the best scenario for me was to go bankrupt. (Henry - painter and decorator)

As a result of this situation, Henry was advised to declare bankruptcy and reopened as a smaller business with no employees. Henry goes on to explain that he will now turn work down to avoid the mandatory registration associated with VAT "I do turn work away; you know I do try to keep myself under [The VAT threshold]" (Henry-painter and decorator). This situation is a similar story for Kyle who states that the previous misunderstandings of specific regulations have resulted in the implementation of strategies to ensure he now stays in a position where he feels comfortable with meeting mandatory requirements:

Like I said, I got in a real mess with all that, I had no idea what was doing, it nearly finished me, to be honest. So now I put just enough through to be where I want to be. I'm always turning work down because I just like it on my own now, nice and simple, I don't wanna go into any high tax brackets, I don't have to register for VAT or anything, so I conform to what have to conform to. I won't let myself go above or beyond that. (Kyle – painter and decorator)

Carriers of Formal Institutional Rules

Understanding the requirements of the rules and regulations which underpin formal institutions can also be dependent on and related to specific *institutional carriers*. *Institutional carriers* are responsible for transmitting messages about what is and is not legal or appropriate in specific situations (Scott, 2014). Although the findings from this study show that the absence of an efficient *carrier* to deliver messages regarding rules and regulations in a timely and appropriate way can also lead to further significant institutional uncertainty. Any misunderstanding of the rules and regulations can also

be associated with miss-communication in some cases. In one particular instance, this was between an accountant and a business owner, a situation which resulted in a VAT bill which, again, had not been accounted for when invoicing customers:

The accountant who was doing it at the time was late registering me with the VAT and obviously, I ended up paying three months back VAT payments which I hadn't charged anybody. (Brian - car repairs)

The following excerpts from this study show that institutional uncertainty is associated with a lack of adequate communication about formal business requirements. For instance, regulatory authorities such as the HMRC (Her Majesty's Revenue and Customs) who are considered formal *institutional carriers* failed to disseminate the required information appropriately about the mandatory rules and regulations:

No, I can't say that they've been helpful, there've never offered any help. To be fair I have had a chance to go to a seminar at the HMRC on VAT it was aimed at certain people, you know, it was a really generic course and when I asked specific questions about my situation they couldn't answer them so didn't suit my specific business. (Henry - painter and decorator)

Abigail supports this further and states that without her accountants help she would not have known anything about VAT regulation, and would not, therefore, have saved accordingly to meet the requirements:

How would you know? No one rings up to tell you; I wouldn't have had a business, that [VAT] would have bankrupted me. I think you pay your tax and I would have carried on doing that. But does someone ring up and say oh hang

on a minute you're in the VAT threshold, I don't think they do? I'm not aware that that's what they do. So, I could have lost my business. (Abigail - hairdresser)

The role of the accountant as an *institutional carrier* in this study is a significant finding. The accountant often plays an important role as an external advisor who is often relied upon to explain regulations through general business advice. Henry and Abigail both attested to this when asked how they learned about running a formal business:

Basically, just through the accountant when I hand my books over, whatever she says, that's what we've got a pay, or get a rebate. Everything I learnt is through going to see my accountant. (Henry- painter and decorator)

So, to get that all in place I have had to rely on my accountant again to help me with things like that, because no one tells you when you start out. But I suppose you learn as you go along, so you might not do it properly, but that is purely from the innocence of not knowing. (Abigail - hairdresser)

This advice can also undermine the formal institutional rules and further promote the perception of informal activity as an acceptable and legitimate. Dennis, an electrician, explains “even the accountant says have a cashbook [record of informal work] and a proper book”. Henry, a painter and decorator, corroborates this by discussing how his accountant advises against registering for VAT by implying informal practices should be adopted when getting close to the VAT threshold “I'd ring my accountant and say what can we do. I know her answer would be ‘*let's see if we can keep under it in any way possible*’ [emphasis added]”. This finding is consistent with existing studies which highlight the role of the accountant as a regulatory agent who advises about, and in some cases, facilitates informal activity (Ram et al., 2019).

In conclusion, institutional uncertainty refers to an individual actors' failure to fully understand the formal regulatory requirements. This section has highlighted how individual agency and future informal activity can be driven by a lack of understanding and confusion. From an institutional lens, this confusion results in actors turning to cultural and normative beliefs driven through the logics of appropriateness and orthodoxy (Scott, 2014) which were embedded in the actor's repertoire of acceptable practices during *structural conditioning*, as outlined in the previous chapter.

At times of uncertainty and confusion, *institutional carriers* (i.e. accountants) can directly influence what happens next. This could be compliance or non-compliance dependant on the information delivered and the actor's status as a *corporate* or *primary agent*. A failure by an *institutional carrier* to deliver the necessary information in a timely manner can also lead to non-compliance. Any failure by formal regulatory agents such as the HMRC to provide business owners with practical information regarding how to achieve full compliance can contribute further to confusion and uncertainty. This extra confusion and uncertainty can then actualise the previously embed normative belief that informal activity is acceptable as in the actor attempts to navigate these confusing situations.

6.2.3 Institutional Powerlessness

Institutional powerlessness exists when governments lack the institutional strength to enforce the rules and regulations (Ireland and Webb, 2015; Webb et al., 2009) or fail to provide suitable incentives to comply (Williams, 2019). In the context of this study, *institutional powerlessness* is demonstrated by the market presence of fully informal businesses, actors or *serial off-the-books traders*. These largely informal businesses operate beyond the enforcement powers of the government due to their low economic

visibility; they are characterized by never or rarely complying with mandatory rules or regulations. However, even the most informal business would need to comply with some regulations to gain work (Williams and Shahid, 2014) meaning that complete non-compliance is considered to be rare (Webb et al., 2013). Those who largely fail to comply with any rules and regulations can also often have formal jobs, a situation which can help hide their informal market presence.

In this study *institutional powerlessness* includes informal competitors, and associated rules, regulations and other factors which evidently help these largely informal workers and businesses to exist. Informal competitors adopt a more strategic approach to their non-compliance which enables them to compete with formal service sector businesses.

Fully Informal Competition

Informal competitors who rarely comply with any formal rules significantly contribute to a contextual environment whereby informal activity becomes a necessary evil for more formal businesses. These findings are consistent with existing evidence from Europe, where around a quarter of formal businesses believe that informal activity has a detrimental effect on their business (Williams and Kedir, 2018b). An excerpt from Ewan who operates a formal car wash highlights this problem:

These other car washes can't be paying everything. I know how much it costs for rent and rates because I've been at it long enough. There's no way some of their car washes could be paying the rent and rates on the property other than if they are up to something highly illegal.... I can see another car wash from here, and I know how much the rent and rates are because I looked at that site.

They have very little business, I can see it from here, they just could not afford to pay it, let alone the six lads working there. It's all driven me into the ground. I've done my best to pay my way but can't possibly do it at all now. (Ewan – car valet)

These comments specifically relate to informal car washes. The growth of informal car washes is considered to be a widespread problem and a growing trend in developed economies such as the United Kingdom. Clark and Colling (2018) observe a 60% growth over nine years (2004 to 2013) to around 10,000 informal operations in total in 2013.

The comments by Ewan provide evidence that the activities and market presence of these largely informal competitors can lead otherwise formal businesses to adopt informal economic practices in an attempt to compete and survive. A similar situation is found by Iriyama, Kishore and Talukdar (2016) who show that formal businesses can adopt specific informal strategies to address competitive threats by informal actors. The threat of fully informal actors is further highlighted by Hank who asserts that "it's not the ones that play by most of the rules that cause the problems, it's the ones who couldn't care less – they drive everyone's prices down" (Hank – general house builder). Andrew and Peter further discuss an overall lack of trust in other businesses and the effect of these largely informal competitors on the market structure:

These guys can't be declaring anything, so they're making massive savings which is helping them cut their prices by cutting all the costs out. By not abiding by the regulations, there's a knock-on effect. I then have to cut costs to survive and sometimes the only way you can cut costs or offer better prices to

customers is to not pay taxes on some things or to try and loose the VAT on others where you can. (Andrew - car sales)

I get why we have laws regulations but if everyone's not complying then it makes it very hard to compete because it's not fair, so they hinder me. (Peter – Tree Surgeon)

This lack of trust in other businesses is outlined within existing studies of the informal economy as a significant contributing factor to the prevalence of IEA (Williams and Krasniqi, 2018). Within these existing studies, this lack of trust appears to be associated with the decision of a business owner to under-report turnover, believing that informal activity is widespread. The findings from this study do not necessarily support this, as the lack of trust does not appear to cause informal activity directly. In this study informal activity by formal business owners is influenced by the actions of fully informal competitors driving down the market price of goods and services, as opposed to formal business owners believing that informal activity is increasingly widespread (Frey and Torgler, 2007; Horodnic, 2018). For instance, the overall reduction of market prices leads otherwise compliant businesses to adopt informal practices to be able to offer goods and services at a competitive price.

The Serial Off the Books Trader

During the fieldwork stages of this study, three supplementary interviews were conducted with individuals that operate a part-time fully informal basis alongside formal work. These individuals avoided all formal requirements regarding the declaration of their part-time income to the formal institutions. These interviews provided important insights into why these individuals fail to comply with any regulations, a process which the formal businesses owners identify as negatively

affecting the marketplace overall. The part-time informal business owners operate on a survival-based rationale, adopting informal practices to supplement their formal wages for various reasons. These fully informal actors believe that non-compliant activities are both culturally acceptable and a taken-for-granted part of everyday life:

I make more on a Saturday and Sunday than I do all week for the council. If I was to declare it suppose I'd lose a fortune in tax because I'd be getting taxed twice and it would take me into a higher tax bracket. My wife's not very well; she can't work and also, we haven't really got any benefits to fall back on when we retire, no pensions or anything, so I'm trying to put a few quid together to retire with.

I think it's quite normal, I think everyone's at it, all my mates in different trades do jobs on the side. Not many of them work as hard as I do though, but they are always doing a little job on the way home from work. (George – informal business owner)

George believes that his actions are culturally supported and therefore acceptable, given his current situation and role as the provider for his family. Lee also operates in an informal way to supplement his wages from his formal building site business. Lee identifies as a self-employed steel fixer with his own business, he was originally asked by an employer to become registered as self-employed, although he only works for one employer and as a result does not get regular work - he is used only when he is needed:

When I said I was employed as a steel fixer, It's on a self-employed basis. So, when I'm not working, I'm not getting paid. The work is so unreliable it's hard, so when I'm not working on-site, I do some general landscape gardening for

family, friends and people down the pub, in general, to get by. I don't declare any of that, I only declare the wages I get from my steel fixing work. (Lee – steel fixer)

These fully informal business activities are also considered as hobbies which are only partly motivated by money and not necessarily for survival:

I don't know about business really; I know I do it for some fun. I find it quite exciting; it's like gambling. The amount I'm doing is so small scale I don't think anyone would be that interested anyway.

I don't think you ever feel like you're earning enough money so you always try and supplement it with a little bit more where you can. (Jack – informal business owner)

Informal Business Start-up

Fully informal activity is a two-sided coin. In some cases creating an informal business provides a starting point for future formal business opportunities. It can be costly to fully comply with rules and regulations, beginning informally can also be a part of an entrepreneurial process used to test a business idea and gain an understanding of the market. Williams and Round (2008) discuss the informal economy as not necessarily an “exploitative” (p. 450) realm as it can also be a platform for the development of ideas and an entrepreneurial mindset. This belief is supported throughout the interviews in this study, with various discussions which attest to the benefits of early informal activity. Informal start-ups can also be used to raise capital for formal business ventures. These findings are consistent with the extant study of informal activity, where 1 in 5 businesses start informally before formalising (Williams and Kedir, 2018). These findings vary greatly across global regions; around 46.9% of

business in South Asia start informally before formalising, compared with only 5.5% in Europe and Central Asia.

The evidence from this study shows that starting informally is only considered acceptable in the short term as the fear of detection in the long term proves undesirable. Brian, a now formal business owner, summarises his plan to start informally before formalising:

Got to that sort of that age where I thought it's time to set up on my own and so I thought to myself 'why I don't apply to the banks for a business loan?!'. So, I applied to the bank but got refused; I tried about three or four banks. Nobody wanted to touch me because I had a family, and I didn't have any savings because we had three kids. So, what I decided to do was, well I thought I've got to earn some money. I've got to have my own money to start this. So, I started doing jobs at night, every night and working Saturdays and Sundays [informally], I saved up so much money so I could then start a business.

For the first three months of working, it was all cash and I never put anything through. But I always wanted to go legit, but it just wasn't viable for me because I needed enough money to live off and I needed enough money to pay for the parts for the jobs, and I just didn't have enough. So, the only way to do it is to cut the tax and the VAT man out [not declare the income], and then after three months, it was up. Obviously, I decided it was time to go legit [formal]. (Brian - car repairs)

Andrew supports this discussion further, and highlights how acceptable and common he believes it is:

Yeah definitely, I operated off the books [informally] to test the business out, I suppose to raise some money for the real [formal] business that I've got now, but this was only a short-term plan. I always wanted to do it legit. I think a lot of small businesses start testing the market out like this as well, whether it's at a car boot sale, eBay or selling a couple of cars from the front [of the house]. But this can only be a short-term plan to raise capital or find out about the market you can't live like it can you, you'd be on edge all the time [through fear of detection by formal institutions]. (Andrew - car sales)

Hank (a general house builder) corroborates the idea that informal business practices are an acceptable means to raise capital to start up a business when formal lending facilities are limited. Hank goes on to outline the other benefits of testing the business out informally:

I think some people like myself also need to do it to raise money to do it all properly [formal registration]. You couldn't afford to just set up legit [legally] straight away, especially if you didn't know how successful the business would be, if at all. Loads of people have a go at doing something don't they, but they don't all make it do they. Imagine if they had started all properly and registered with everyone everywhere rented proper shops or premises, then it all goes pop [closes down] after a few months imagine having to shut all that down, what a nightmare that would be. (Hank – general house builder)

Collectively these previous discussions highlight some of the advantages that starting informally allows, such as flexibility, capital accumulation and providing a testbed for ideas while avoiding costly formal agreements. However, these benefits can also

easily be outweighed as starting a business informally also has a darker side, as some actors discussed:

To start with, it wasn't realistic. I mean, I was doing these jobs really cheap, because I wasn't paying any taxes or anything on it. So could afford to do it really cheap. There was never any pressure on these jobs, if I didn't get them it didn't matter because I had a full-time job.... So, the money I was making wasn't real in that respect; I hadn't accounted for the fact that 20% of that needed to go to the taxman, I had no idea about VAT and registering for that. You know the money I took on the side was all mine to pocket, whereas now it's not. (Liam – heating engineer)

Liam's informal business activities appear to have created an unrealistic picture of the business; this naivety about the rules and regulations went on to cause financial problems. These informal practices also continued into formality:

When I first set up [formally], I carried on thinking that it was all mine, to go in my pocket which left a big hole in my financial situation when it came time to pay the tax bill. (Liam – heating engineer)

The problems did not stop there for Liam as once he had a grasp of the regulatory requirements and understood the need to increase his prices; his customers went elsewhere. Liam's early business model had focused on low-cost leadership, gaining all his business and customers by charging low prices, low prices which were achieved by working informally:

Initially, I did build a good customer base, but now I know why – because I was so cheap. Like I said, I wasn't accounting for tax and all that. Also, the extra

day in the week I was losing through driving around quoting and invoicing. This wasn't being factored into my weekly wage, so my five- or six-day week was now down to four or five days to account for the book-keeping and all the other rubbish, you know I was getting a lot less money, although there was a lot more responsibility. (Liam – heating engineer)

Regulatory Trade Associations

The regulatory trade association subheading refers to mandatory memberships to specific governing bodies who regulate specific trades by maintaining professional and legal standards. Registration to these associations is at a financial cost to the individual and requires regular updating. These updates depend on the industry and legal requirements, although from the discussions with the actors in this study between one and two years is standard practice. These regulatory bodies are only relevant to participants from specific trades such as heating engineers and electricians. Other service trades such as motor mechanics, hairdressers and plasterers required no mandatory training to work within their trade and although, these other actors did have qualifications they formed no legal requirement.

Some formal business owners in this study discuss less compliant businesses or *serial off-the-books traders* that avoid not only regulations relating to tax and labour, but also other mandatory laws associated with regulated trades. For instance, largely informal competitors also appear to be avoiding mandatory membership to specific trade organizations, such as Gas Safe for heating engineers, which is a legal requirement. Registration to these mandatory associations ensures compliance with the law and allows mandatory certification for any work which is conducted. The failure to register does not specifically mean the actor is not competent in their role, but it does

mean they have not passed the mandatory tests or paid the costly registration fees needed to achieve accreditation. In some instances, this means that those who are unregistered recruit others who are complaint to sign the work off, thereby saving on registration costs and achieving the perception of compliance and legitimacy for the customer:

Somebody that's unregistered does the work, and he gets somebody registered to register the boiler in their name, although a registered person has not completed the work. That does happen, but less and less now because the Gas Safe people are clamping down on that. That was definitely common up to a few years ago, but it's getting less and less now. It still happens, it's these guys that help drive the prices down and make it harder. (Ethan - heating engineer)

The individuals governed by these regulatory trade associations value their importance but consider registration expensive, and a cost that must be passed onto customers. The extra cost of this regulation makes compliant business more expensive than informal competitors. In some cases, lower prices appear to be more valued by customers than the regulatory standards:

Those that aren't registered for gas, in particular, can do the work cheaper. So, somebody might get a quote and think that it's really high. Not realizing that it's quite expensive for us to train as a registered installer, we've spent a lot of money, like thousands of pounds to get to that level. But they don't understand that we have to include that in the price. But they try and cut corners and get somebody else in to do it that knows how to do it but isn't registered. (Ethan - heating engineer)

With some customers also apparently being unaware of the mandatory accreditation to schemes which businesses need to be registered with:

You would be amazed how many people don't ask for it still [confirmation of membership to accredited scheme], factories ask for it, but private people don't. I think people just assume that you know what you're doing. (Dennis - electrician)

Some unregistered businesses still prize these regulatory trade association memberships and the legally sanctioned legitimacy. In an attempt to appear to more legitimate, unregistered businesses sometimes use the logos of regulatory bodies for advertising. A practice which allows these unregistered businesses to compete on uneven terms with those businesses who pay the associated fees and attend the relevant courses needed for compliance:

One of the big things that happen, which people can get a custodial sentence for, is pretending they are qualified when they're not. So, we carry the badge of being in the NIC which is the governing body [for electricians], and there's other ones out there like ELECSA. People use these logos that shouldn't be using them [not qualified].

Another big problem is when people lie about their levels of qualifications. Like when Part P building came in ages ago to stop people doing work that shouldn't be doing it, there were people that were like fudging it [lying] and saying that they were Part P qualified, and they weren't Part P qualified. (Dennis - electrician)

Although the mandatory regulation of some industries is shown as a costly business expense, other actors involved in the study would like to see the introduction of regulatory bodies in their industry:

Anyone can set up as a hairdresser, which is mad really because we do deal with toxic chemicals so you could hurt someone. We get people come in [customers] who have let people just do their hair cheaply and really messed it up.... I think it would add a level of professionalism [...] and that would allow us to charge more I guess so we could comply properly. (Christine - hairdresser)

Ultimately, non-compliance with regulatory standards by some individuals adds to the problem of winning contracts in the specific industry that mandatory regulation is required:

There's a lot of businesses out there now that don't comply at all. They cut all the costs. I know some gas engineers that don't even follow the Gas Safe regulations, which obviously puts them at a cost advantage to me when it comes to quoting for work. (Owen – heating engineer)

Sales of Goods Act (2015)

Other regulatory requirements also cause problems for businesses in this study. For instance, The Sales of Goods Act (2015) was also highlighted as a regulatory problem in some industries. With the government seen as powerless to evenly enforce compliance on all businesses in the sector, demonstrating a degree of institutional powerlessness. This regulatory rule, although only present in two cases within this study which both involved the sales of used cars, highlighted how a formal rule which

is unevenly enforced can create conditions which indirectly affect the market environment, and causally influence the adoption of informal activity.

Within England, there are regulatory government bodies such as local and national versions of Trading Standards which protect consumers from unlawful sales practices. These government agencies attempt to ensure that all businesses comply with specific standards when trading with private and business customers. This compliance is guided by various legislation such as The Sales of Goods Act (2015). As seen in the discussion about regulatory trade associations, compliance with these requirements can mean that formal businesses find themselves at a competitive disadvantage when informal competitors do not comply, such as *serial off-the-books traders*. This situation leaves formal businesses believing the government are powerless to tackle these competitors, who simply do not seem to care:

The laws and regulations are aimed at making everyone conform to certain standards. However, the ones who operate completely informal and don't pay or abide by anything simply don't care about anything. So, I end up complying, or trying to, at a cost to my business which reduces my profit while the others who don't care miss all these costs out. (Andrew - car sales)

Evidence for Andrew's beliefs are provided by Jack who operates a fully informal business alongside formal employment. He outlines his complete lack of compliance regarding the warranty periods and used cars "I tell them all, they're sold as seen and they all seem fairly happy with that. I've never had anyone complain" (Jack – informal business owner).

Andrew goes on to discuss how laws that are introduced to stop unlawful activity only affect businesses that care and fear detection. With formal organizations such as trading standards trying to enforce compliance on a part of the market that does not appear to have any intention of complying. Andrew outlines that this persistent non-compliance by some businesses leads to an overall increase in regulations for the used car industry as a whole:

This is a side effect of the roadside traders who work completely off the radar [completely informal] because they rip people off and don't honour the conditions of sale. This has meant that the government has had to intervene with new consumer laws. However, these new laws don't affect the traders that they should because they don't care. What they have done is make the job harder for the legitimate traders like me as there are now more costs associated with operating formally and laws to comply with. The ones who don't care, well just don't care, you cannot introduce laws that will ever affect them because they could not care less. (Andrew - car sales)

Focusing specifically on the car sales industry, the businesses who altogether avoid complying with VAT and Tax regulation and in some cases also the mandatory legal obligations in regard to the Sales of Goods Act (2015) can offer significant discounts. These savings, coupled with the use of roadside parking, driveways, car washes, and less legitimate premises to display these cars, can result in further savings on rent and business rates. Overall, these savings allow fully informal businesses to sell the same or similar cars cheaper than a registered business that is trying to follow the regulations:

They are not properly registered or providing any warranties. They cut all this out by not really doing it legally, so they are avoiding all the costs which are driving the prices down in the market. This is making it hard to sell anything and make a profit. Because they're not conforming like most of us they can sell the same or similar cars cheaper which makes it hard, really hard. There is a big fully informal market now which is really driving the prices down, like there is a lot of people selling cars from the side of the road now, and from the side of car washes.... I end up complying or trying to at a cost to my business which reduces my profit while others who do not care miss all these costs out. (Andrew – car sales)

Unfair competition and fully informal competitors also appear to cause similar problems for motor mechanics who also struggle to compete with those who illegally operate businesses from home:

Around here there are a large number of people working from home which obviously can all undercut me, they don't have all the expenses that I have like rent, income tax, insurance and the rest of it. In most cases, they're not registered. (Oliver – car repairs)

[Informal competition] really affects us by driving prices down if they're not doing everything legally, you know, not everyone is registered for the tax and VAT, so they offer massive discounts.... I also know another local garage which only takes [undeclared] cash so they can always undercut us. (Carl – car repairs)

In some cases informal competitors cannot offer the same standard of service, so their lower prices and lack of compliance does not always affect formal business. Christine

outlines that in her experience, mobile hairdressers are generally informal, but have to charge less due to the limited service and the quality of experience they can offer during home visits compared to a salon:

Yeah, definitely mobile hairdressers, their prices are all cheaper. Some of them are not even qualified so their prices would be cheaper, but I don't think that affects us because of the environment that clients come to. They're happier to come here because it's more relaxing than having your head over a bath [reference to washing customers hair at home]. (Christine - hairdresser)

The lack of government power was also demonstrated by informal competitors avoiding punitive measures associated with non-compliance by reopening under different names. These largely informal businesses appear to be operating on a rational economic actor basis, decreasing the chance of detection by operating under many names to avoid regulatory enforcement and customer complaints. A situation which appears to lead to government powerlessness as these businesses can remain hidden:

There are people that open up showrooms and forecourts, have a good six to twelve months at selling cars, then go bust [on purpose] to avoid costs and the warranties on what's been sold. They then set up elsewhere. (Ben – car sales)

Information Technology and Trade Associations

The use of information technology and membership to voluntary trade associations also helped to facilitate informality by providing informal businesses with a means to appear more legitimate to unsuspecting consumers. These points were also explicitly

related to the car industry. Voluntary trade associations are discussed first followed by information technology.

Voluntary trade associations are aimed at providing consumers with a resource to help assess an organization's legitimacy and ability to provide a good service and value for money. Membership to these associations is at a financial cost to the businesses via a yearly subscription. This membership provides no additional legal capacity such as memberships with regulatory trade associations. Although, this membership does allow registered businesses to display logos associated registration which appear to be aimed at increasing the public's belief in the legitimacy and professionalism of the business.

This type of voluntary trade association caused concern for some formal business owners as they feel that it confuses customers who believe membership is based on a level of competency. Although, as discussed by the individuals in this study, there appears to be no real proficiency tests associated with membership:

There are no entry requirements, loads of garages I know use them [voluntary trade associations] to hide behind to make them seem more legitimate. To be fair these are the ones that break more rules than I ever would. Because they have a membership to this organization, the customers think they're ok. These are the real crooks out there, bodging people's cars up, not paying anything [mandatory tax and VAT contributions] and driving the prices down, so we then have to cut a few corners [operate informally] to keep up. (Carl – car repairs)

Advancements in computers, information technology and the internet also appear to have affected business activities and increased the need for informal activity in some

cases. These advancements have seemingly disrupted the market and contributed to changing the competitive landscape for the worse for some business owners. Ian (owns a car sales and repairs business) illustrates this by discussing the effect that the Autotrader platform (for car sales) has had on his business by changing from a regional magazine, where cars would be priced locally, to a national online website. This situation has given the customer more power and forced the retail price of used cars down resulting in the need to operate informally to survive.

Since the Autotrader went online the prices have really dropped, you have to be so competitive now with other people's prices that there is no margin left at all now, meaning you can't afford to do it all properly [formally]. (Ian – car sales)

The relative ease and low costs now associated with creating a website and advertising online have also allowed less formal and fully informal businesses to create a credible and attractive online presence. A situation which has further driven market prices down:

More and more people are having a go at it now - the internet is everywhere it's so easy to make yourself look credible with a fancy website. Before you had to spend money on bricks and mortar, it was almost as if the better your showroom looked; the more people thought the car was worth. (Kevin – car sales)

Jack, a fully informal car trader although formally employed, explicitly outlines the advantages he has gained through the advances in online selling.

Everyone seems to have a little thing nowadays, don't they, I think the internet has helped with this. To sell a few cars now, I just put them on an eBay account and advertise them online without all the hassle of setting up a proper business; I cut so many costs out this way. (Jack – informal business owner)

Institutional powerlessness refers to the failure of the government to enforce formal rules and regulations equally across all business activities, actors and types. Within this theme, formal business owners are evidently affected by informal businesses which rarely comply with rules or regulations. A situation which results in the need to adopt IEA's to compete. Regardless of complete non-compliance or rare compliance, these largely informal businesses and individuals both full and part-time negatively affect market conditions for those who try to maintain formal regulatory compliance. These fully informal actors are evidently the real beneficiary of the presence of formal regulations as these costly requirements allow those willing to take the risk of full non-compliance the means to undercut prices. Advancements in technology and the presence of voluntary trade organizations have also helped create legitimacy for the less formal business.

6.2.4 Institutional Misallocations and Inefficiencies

Institutional misallocations and inefficiencies can be related to the perception of government corruption and/or a lack of government modernisation. Citizens may feel they do not get the goods or services they deserve in alignment with the taxes they pay especially when they believe government funds are wasted (Kim, 2002; Molero and Pujol, 2012) or the government is corrupt (Friedman et al., 2000). These types of *institutional misallocations and inefficiencies* can cause a breakdown in the social contract between the citizens and the government. This situation creates a misalignment between the formal and informal institutions with actors often preferring

to follow the later (Webb et al., 2009; Williams and Horodnic, 2017b). The divergence of informal norms from formal institutional rules and regulations indicates institutional asymmetry (Section 2.4.2). Multiple studies have shown that a breakdown in the social contract, driven by a lack of trust in the government and lower levels of tax morale are related to higher levels of informal activity (Webb et al., 2009; see also section 2.4.2). Actors in this study commented on their belief in widespread corruption at the macro level, typified by the following responses:

I think it's all the political rubbish you see, and the silly expenses that they claim which haven't helped. ...The people at the top are not setting out a good example are they, when you see how much there all earning, its mad isn't it.
(Christine - hairdresser)

But you have to start at the top. For instance, people that are out there in full view like politicians. Regularly, you hear of people getting caught for that sort of thing, for mishandling their expenses. You hear that a lot lately and that has a knock-on effect. (Ethan - heating engineer)

This lack of trust and the perception of public sector corruption left some actors not completely understanding how their taxes are used, a situation which contributes to a lower level of tax morale:

So as much as I'm trying to keep it straight [operate formally] for my future, I struggle with understanding where my money and my taxes are going. Why should I have to pay all of that? (Abigail - hairdresser)

Although in many some cases, IEA is not necessarily the direct result of a lack of trust, as it can be made in protest to the overburdensome controls of formal institutions (De Soto, 1989). A view some actors in this study report:

I think the government drives a lot of that. It's driven by rules and regulations which people do not want to adhere to. They'd sooner stick two fingers up to the government than comply. (David - Antiques Dealer)

More often respondents reported the overall decision to adopt informal economic practices was not directly based on their subjective belief that the system is corrupt or that the rules are overburdensome. Rather a lack of trust or belief in widespread corruption is used by the actors to support the decision they have already made to adopt informal economic practices. This finding is significant for the institutional asymmetry perspective as it shows that while a lack of trust in the government can influence the decision to not comply with formal rules, a lack of trust in formal institutions can also act as a means of justification for action after the fact. These views are therefore not directly causal:

The more I read the newspapers, the worse I can see it getting, especially with all the corruption at the top [government]. It's not why I do it [adopt informal economic practices], but it makes me sleep better knowing they're all at it. (Freddie – car body repairs)

Informal activity is related to a causal combination of informal beliefs about the acceptability of informal activity (embedded in the actor during the *structural conditioning* stage) and the practical results of formal institutional failures (at the *interaction* stage). For instance, for the service sector actors in this study, *institutional weaknesses*, *institutional uncertainty* and *institutional powerlessness* provide the

situational logic which actualises pre-conditioned beliefs about the acceptability of informal activity. A situation whereby these otherwise formal businesses adopt informal activity to survive, regardless of what the owners personally believe:

You would not do it if you didn't have too. You don't start off thinking you're going to have to scam, do you. You develop into doing this against your better judgement. (Kevin – car sales)

Formal business owners want to conform regardless of any individual beliefs about the system, they feel that they cannot comply in their contextual environment due to the practical implications of the various formal institutional failures and imperfections, such as weaknesses (Section 6.2.1), uncertainty (Section 6.2.2) and powerlessness (Section 6.2.3). The lack of trust in the government or belief that the regulations are overly burdensome may be present in a large number of cases in this study, but does not have a direct causal effect at the *interaction* stage of this analysis. Informal economic practices are more closely related to beliefs which have been embedded at the *structural conditioning* stage of the morphogenetic cycle.

6.3 Customer Demands

Customers at the *interaction stage* of the morphogenetic cycle play a significant role in the persistence of norms, values and cultural beliefs regarding the acceptability of IEA. The expectations of customers for businesses to adopt informal economic practices in return for their custom can also lead business owners to adopt informal economic practices. Customers have been identified here as being *institutional carriers* who evidently operate on a rational economic basis. Questions from customers such as *how much for cash* and *can we lose the VAT* are commonly seen in the data, a practice to achieve financial savings when dealing with service sector businesses. Although

comments such as *how much for cash* may appear to be harmless bartering, over a prolonged period they work to reinforce the shared normative and cultural beliefs of service sector businesses that informal activity is indeed a social obligation.

These demands by customers to receive lower prices in combination with the market presence of *serial off-the-books traders* can create the need for these formal business owners to meet customer demands, otherwise they face losing business to their informal rivals.

There will always be customers that don't want to pay tax and VAT, and there will always be businesses that can't afford to pay everything they're supposed to. (Isaac - plumber)

Customers can and often do carry and promote the belief that informal actions are appropriate and are part of a wider expected social obligation. At these times customers are therefore acting as *corporate agents* to achieve their overall goal of a financial saving; the business owner, due to various formal institutional failures, becomes a *primary agent* as they are forced to adopt a passive role through fear of the loss of business.

A majority of the formal business owners interviewed considered informal economic practices to be culturally accepted, they all acknowledged that informal activity is still the result of agency at this *interaction* stage of the morphogenetic cycle. It remains a choice, however the actors in this study feel powerless to go against the customers' demands as the alternative is far worse. Ethan succinctly explains this point and the factors which he considers before choosing not to comply with the mandatory rules:

There's always a choice, and I either take the work [accept the customer's request for lower prices] or not. When there's no other work you have to take it, so it's as simple as that. So, I choose whether I'm going to earn some money or not. It's a survival choice rather than greed, it's not greed it's a survival thing, it would be a luxury to make these choices without some pressure, one that I've never had. (Ethan - heating engineer)

This understanding has also outlined how customer demands can affect not only business decisions at the micro-level, but also the market environment at the meso-level. Customer demands are shown to have a detrimental effect on the market conditions and pricing, increasing non-complaint activity. These demands highlight the power the customer has in the buyer-seller relationship as they are shown to expect cut prices:

I think there is definitely an expectation for me to cut costs for the customer's benefit and the only way you can cut costs is not to declare everything. (Andrew – car sales)

You do feel pressure from customers which drives all prices down. Yeah. Yeah definitely. And the only way that I can keep cutting costs would be to either use cheaper materials, not pay everything [tax and VAT], or employ some people off the record. (Ethan - heating engineer)

In some instances, these customer demands directly reference specific formal regulations such as Value Added Tax (VAT). Ewan explains "If an invoice shows a separate VAT element, they immediately want it knocking off which forces the business to try and stay under this threshold". With Freddie, a car body shop owner, supporting this further "My customers wouldn't pay everything like VAT". These

customer demands regarding VAT result in comments such as "can we lose the VAT" (Carl – car repairs) which equate with "how much for cash" (Williams and Martinez-Perez, 2014, p, 802). Andrew explains the situation in detail when recalling a recent interaction with a customer:

The first thing that the customer said, within five minutes of being here, was *can we lose the* [emphasis added] *VAT*; it does my head in. He obviously knows what he meant by that; you know he was asking me to commit VAT fraud and not pay the VAT, but the VAT has to be paid. I think as he was private, he obviously couldn't claim the VAT back. Most people see VAT as a business tax only, so they don't want to pay it. (Andrew – car sales)

This pressure from customers to cut prices was also shown to create longer-term problems which extended well beyond the occasional transaction:

I've witnessed some businesses go entirely off the books to survive. If you have too many customers who don't want to pay VAT or want cash deals, you have to do it, or they would find someone else who would. You'd lose everything, have nothing left. So, like I say I've gone the wrong way with regards to complying or not, but I've just followed the trade really. [...] The area [of the city] I'm in cash is king. So, to my customers, cash is king. (Freddie – car body repairs)

These findings are consistent with other studies on the informal economy. For instance, Williams and Martinez-Perez (2014), find that 44% of customers in the European Union demand informal transactions with the sole purpose of reducing prices, although other rationales exist such as speed and quality of goods. Within this study price is shown to be the primary concern and rationale for customers of these

service sector businesses. Ben states that he believes that this demand for reduced prices is often the result of the customer wanting more than they can actually afford:

I think people like to keep up with the Jones's; you know someone who is buying a BMW or Mercedes can stretch themselves that much that it forces them to [ask for cash discounts] because they can't really afford the car. So really instead of having a BMW 3 series, they should have an Astra, but they don't want an Astra. What's it called, millionaires' lifestyle and poverty pockets. (Ben – car sales)

When these *cash* transactions are agreed, and the associated discounts are provided for an undocumented transaction (Littlewood, Rodgers, et al., 2018) it is clear that the real beneficiary of the transaction is the customer. Indeed, it is shown that the business does not keep the money that would have gone to pay the tax and the VAT element for profit but rather it is used as a flexible margin to negotiate and secure the deal. A deal which benefits the customer first while business owners attempt to cover their tracks:

If anything, the customer makes the saving, leaving me to have to make receipts up to cover the fact that the punter has made a great saving. It's daft, really. They should just pay the price, it's not a figure that we've just made up, but they feel the need to try and chip you down, and the winner is them. (Hank – general house builder)

These customer demands, when considered alongside the increasing burden of regulatory requirements means that non-compliance can begin to appear to be a very attractive situational response based on the previous directional guidance that the *structural conditioning* stage has supplied:

I mean in my line of business, for example, if you've got a thousand pounds profit in a car. I mean if you did that car officially and paid the VAT on the profit and then paid for all the preparation properly and all the other charges, you end up with a thousand pound becoming two or three hundred pounds. And then you've got the tax to pay on that at the end of the tax year. So, the benefits really standout. (Ben – car sales)

Business owners discussed that the customers expecting informal discounts for *cash* transactions are a real mixture of people from all walks of life. For instance, some customers need the discounts to be able to afford the service, whereas others simply like the idea of getting a discount. The following excerpts highlight the breadth of the customers who believe that informal activity is legitimate and acceptable:

It's not just young and non-professional people that ask. It's all sorts like shirt and ties [white collar workers] as well they all ask the question [how much for cash]. They all want it as cheap as possible. They want as much as they can for as little as they can. (Ben – car sales)

Yeah, they love it. They [customers in general] love getting discounts; you know the people that I do work around the house for and pay me cash is a real mixture. Some people couldn't afford to pay to get it done properly. And some people who can quite clearly pay and have jobs that should know better. (George – informal business owner)

6.3.1 Customer Opinions

During the field work the opportunity arose to speak with customers (Section 4.5) who regularly buy goods and services from the informal economy. The following excerpts come directly from these customers and act as supplementary evidence which

supports the previous quotes from formal business owners. For instance, the excerpts illustrate that these informal transactions are indeed initiated by the customers in many cases to save money, and in one instance based on the customers belief that these businesses were already profiting substantially:

Yeah well, on big purchases I always try to get a bit of discount, like a car, I always ask them for a cash price. They're making enough out of it already so why shouldn't I ask for a discount. If I tell them I don't want a receipt, I'm letting them know they've not got to put it through the books, but because of that I want to discount. (Joseph – informal customer)

These customer interactions also highlight the power these specific actors have on the business owners. This position of power is underpinned by the presence of other businesses which are believed to be ready to accommodate their requests for cash deals if they are not initially successful at a particular business, for instance those business which have been outlined as *serial off-the-books traders*.

To be honest, I never pay the first price they give me. If they don't come down, I'll use someone else. Even if it's a car, the last couple I bought if they hadn't dropped the price I would have walked away. (Neil – informal customer)

In this sense, the customer has adopted a rational economic actor approach to the transaction with the primary objective to save money through a process which is considered *normal*:

It's just *normal* [emphasis added] business isn't it, I want as much for my money as I can get. I think it's good to feel like you've got a good deal and if you pay full price on something, you often feel like you've been ripped off. After all,

when they put a price on something, there's always room to haggle. (Joseph – informal customer)

Well, I suppose most of it is just jobs around the house, maybe some gardening, decorating, and even when I have my boiler serviced, I always ask for a cash price. [...] They know what I mean. (Neil – informal customer)

These cash transactions are often associated with friends and acquaintances who work in the service sector, which are seemingly related to smaller jobs. With the customer evaluating the risk of not having a receipt against the likelihood of future problems. An evaluative process which also considers the financial saving which can be achieved:

With work around the house, it's reasonable to offer cash to mates who have trades. I've just had some painting done by a friend I went to school with, and I asked him to do me a good price because I don't need a receipt. After all, what use is the receipt for a job like painting, I can't take it back. (Joseph - informal customer)

I suppose it's only really when you have jobs at home, only small jobs though. We had an extension built a long time ago, and we paid for that properly because I wanted the invoices for peace of mind. After all, if that goes wrong it's a big problem the same with the new double glazing we had, but a bit of painting, that's ok isn't it. (Mary – informal customer)

It's always good to have a deal and saving a little bit of money that's what it's all about isn't it. I only ever do it with people I know; you know mates from down the pub or from the golf course. (Matthew – informal customer)

Customer power in these transactions can also be related to the size of the business, as Neil highlights “definitely the smaller businesses because they need the custom and there will always be someone who will do it cheaper if they don't". Mary elaborates further:

I mean if British Gas comes around you can't get them to do a better price can you, but when you have some of the smaller businesses round, they can definitely do some discount. And if they can't do it, then you always say to them ‘what about without a receipt’ then they don’t have to put it through the books. (Mary – informal customer)

Although in some cases, it may also be the business owner who promotes these informal practices. Nicola discusses her interaction with a landscape gardener she found on a social media site:

I had someone round I found on the Internet, Facebook actually, to give me a price for doing the fence in my garden and he said it was £700 or he could do it for £575 if I paid in cash without a receipt. So, I paid the lower price. I suppose I shouldn't have really thinking back about it, all I thought about was saving some money. (Nicola - informal customer)

Public houses in this study appear to act as local labour exchanges and a common place for these informal transactions to be instigated. A finding which is consistent with other existing studies, such as Horodnic and Williams (2019). These open discussions in public places further normalise and highlight that IEA is a largely common and acceptable practice:

No idea whether it's normal or not for everyone, but it definitely is from where I'm from. You go in the pub on a Friday or Saturday night, and all the lads from around the area are in, and they all have different trades or know someone who does, and they will come and do odd jobs around the house for you for cash if you just ask. They don't all have their own businesses; some just do it on Saturdays and after work. (Neil - informal customer)

These discussions with customers who promote informal activity also highlighted the importance of early experience in shaping individual beliefs about informal activity during the *structural conditioning* stage. These customers all experienced *informal employment arrangements* early in their working life, a situation which contributed to their judgements regarding the acceptability of informal activity (Table 6.2). These informal jobs for the customers in this study typically appear to involve casual work in bars, restaurants and shops. Nicola provides a typical example of a response from this study:

Well, when I was training to be a nurse I had to do some extra work as I wasn't earning very much. I used to have a job in the evenings sometimes and at weekends working behind the bar and serving in the restaurant and they used to pay me cash. (Nicola - informal customer)

Table 6.2 Customers Experience of Informal Employment

Type of Early Experience	Case Studies Identified In	Type of Role
Undeclared Employment	Joseph, Mary, Neil, Nicola	Bar Work, Kitchen Assistant Car Valeting,
Under-declared Employment	Matthew	Gym Assistant

Source: Author

Collectively, these supplementary discussions with customers outline the existence of a shared understanding and common belief about the appropriateness of informal activity which extends beyond the primary business owners in this study. IEA appears to be considered as culturally acceptable in the purchase of goods and services by customers, with these beliefs being considered particularly appropriate and taken for granted for transactions which involve smaller businesses, such as sole traders. The existence of this common belief is evident when customers ask *how much for cash* or *can we lose the VAT*. These customer demands further help to support the legitimacy of informal activity. In this respect, customers act as *institutional carriers* by continually delivering messages about the normative and cultural acceptance regarding the appropriateness and social legitimacy of IEA. Non-compliance with formal rules becomes a shared understanding and social obligation in some situations and industries as a result of the practice of demanding, offering and accepting *cash* discounts.

6.4 Chapter Summary

This chapter has explained the institutional context which actors work in on a daily basis in order to understand how this contributes to the decision to adopt informal economic practices. This chapter has explored why, and under which institutional conditions, informal economic practices become preferable situational responses. At this stage, the institutional environment actualises previously embedded beliefs that informal activity is both normative and culturally accepted.

These findings are consistent with existing studies of the informal economy, whereby institutional environments in which IEA is most prevalent are characterised by

various formal institutional failures and imperfections (Williams, 2019). Formal institutions have been shown to fail or inappropriately govern business activity in a variety of ways; *institutional weaknesses*, *institutional powerlessness* and *institutional uncertainty* are a common reality for the business owners in the sample. Collectively, these various institutional failures limit the interpretative freedom of actors by placing situational constraints on their decisions. IEA becomes the most appropriate and, in some instances, the only situational response available if the business is to survive. Although the decision to avoid formal rules and regulations is a rational economic response, the data analysed here indicates that IEA is not generally carried out for financial gain. It is better understood as a situational response to avoid the financial and administrative penalties that compliance would cause the business owner. Regulatory compliance places a financial burden on the business that reduces competitiveness against less compliant or fully informal actors. These decisions are often based on business continuity and survival as opposed to merely being a means of financial gain. Although regulation can be seen as having a positive influence on firms in regard to environmental performance (Aragón-Correa et al., 2020); regulations are seen to have a negative financial impact which leads to non-compliance.

The economic behaviour of the actors in this study are influenced by the *formal institutional failures* outlined in this chapter. The findings from Chapter 5 also indicate that economic non-compliance pre-exists this *interaction* stage as IEA must first be considered as a legitimate means to an end. Failures by formal institutions to appropriately govern the economic behaviour of actors has been shown to provide a reason for economic non-compliance. It is the earlier *structural conditioning* of actors' decision making (the establishing of views around legitimacy, norms and cultural

acceptability of informal activity) which provides an alternative situational logic for non-compliance.

The focus of the next chapter is to bring together and synthesise findings from Chapters 5 and 6 and provide a morphogenetic account of the emergence of IEA.

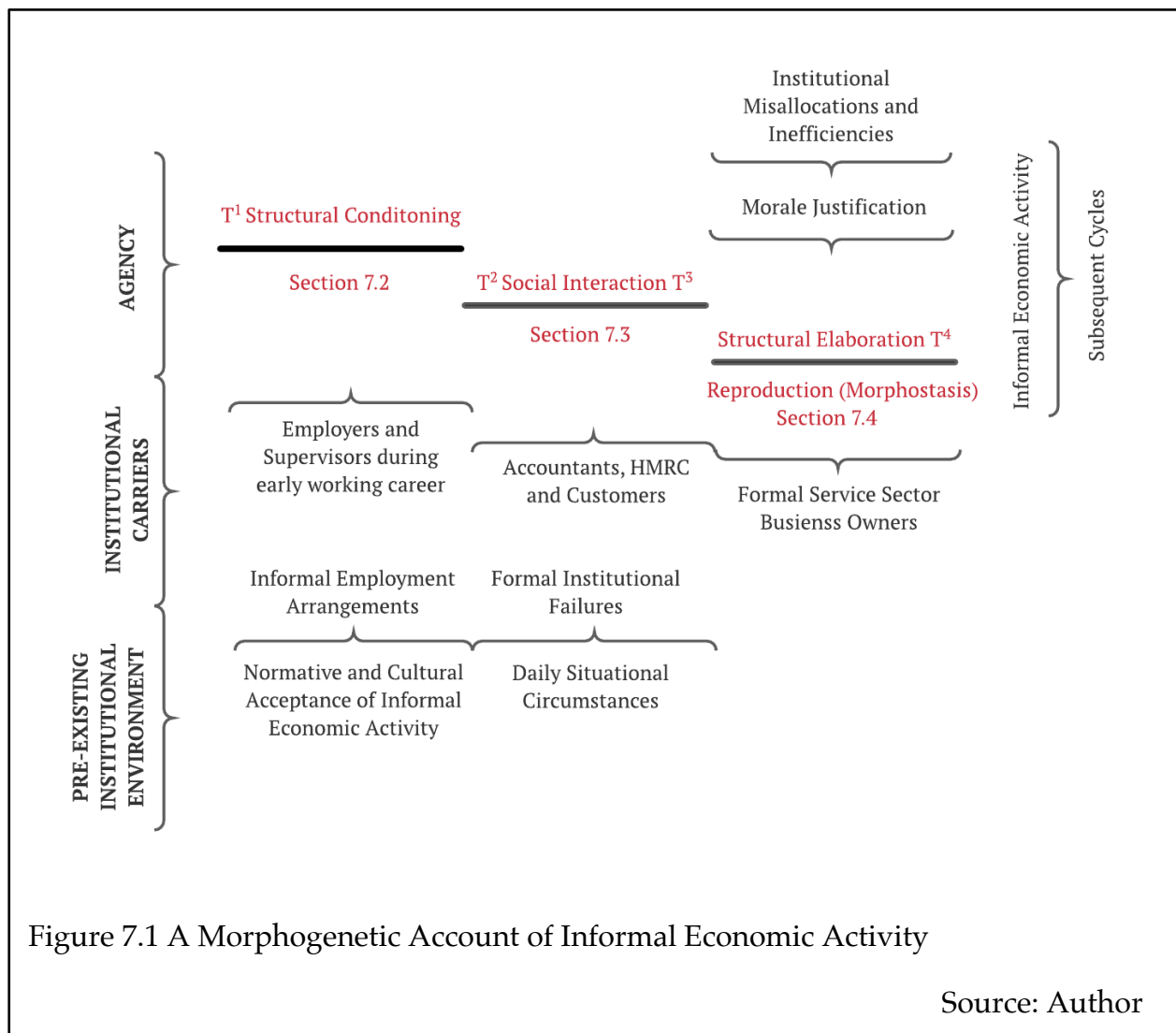
Chapter 7 Discussion - A Morphogenetic Account

7.1 Introduction

Chapter 7 provides a synthesis and discussion of the findings from this study (Chapters 5 and 6) in relation to the conceptual framework outlined in Chapter 3. This chapter provides a micro-level account of the emergence of informal economic activity (IEA) from the relational and temporal interplay between the institutional environment (formal and informal) and individual agency. This study uses a conceptual lens built from morphogenetic insights and institutional theory to address the two research objectives set out in the introduction. These objectives are:

1. To explore how the interplay between the institutional environment (formal and informal institutions) and agency generates informal economic practices over time.
2. To understand how messages regarding the acceptability and legitimacy of informal activity are transmitted within the institutional environment.

The theoretical advancements made by examining IEA through a morphogenetic lens are more explicitly identified in Figure 7.1. This chapter is split into sections which relate to a complete morphogenetic cycle, consisting of three discrete but relationally connected stages. These stages, as outlined in Chapter 3, create a “before-during and after schema” (Newman, 2019, p. 108). IEA emerges during *structural elaboration* and is the result of the first two stages of the cycle, namely *structural conditioning* and *interaction*. Each stage is now discussed in turn, beginning with *structural conditioning*.



7.2 Structural Conditioning

The first stage of the morphogenetic cycle refers to the *structural conditioning* of decision making (Archer, 1995) which provides an explanation for why an actor would prefer one course of action over another (Archer, 1995). *Structural conditioning* in this study explains how the pre-existing institutional environment conditions actors' future decision making and why IEA becomes accepted as a legitimate situational response in specific circumstances by individual actors.

The early experiences of work for the service sector actors in this study (primary respondents) are characterised by *informal employment arrangements*. These *informal employment arrangements* provide the actor with “scripts for action” (Scott, 2014, p. 69), which have been inherited from the past (Lowndes and Roberts, 2013) and go on to guide future activity, especially in times of confusion and/or necessity. Exposure to *informal employment arrangements* throughout their early working career slowly desensitises service sector actors to the need to strictly follow regulatory requirements. All of the respondents from this study were exposed to a type of *informal employment arrangement* (Section 5.2). For instance, early experiences of work were commonly characterised by *undeclared*, *under-declared* and *dependant self-employment* arrangements long before they started their current service sector businesses. These *informal employment arrangements* are also the common reality for actors who purchase goods and services from the informal economy and those who owned part-time fully informal businesses (as captured in supplementary interviews). The different types of *informal employment arrangements* which had causal influence in this study are outlined next.

7.2.1 Undeclared Employment

Fully *undeclared employment* is the most typical type of *informal work arrangement* in this study, with twenty-five of the thirty-four respondents having had experience of being paid cash-in-hand early in their working career. Fully undeclared work was associated with temporary or part-time employment during actors’ early years. In many cases this was conducted whilst still at school, often involving casual work in shops and restaurants. Fully *undeclared employment* arrangements were also associated with other job roles which formed part of longer-term employment arrangements. For example, actors in some cases were employed full-time on a fully *undeclared employment* basis as assistants to household trades people such as electricians and

landscape gardeners. *Fully undeclared employment* situations also involved other job roles such as night club security, pharmacy counter assistant, gym instructor, market stall assistant and dog walker, as examples.

7.2.2 Under-declared Employment

Under-declared employment was also part of actors' introduction to working life in some cases. *Under-declared employment* is a situation whereby the actor receives part of their wages in cash which is unregistered and therefore informal alongside a formal wage (Williams and Kayaoglu, 2020). These *under-declared employment* arrangements avoid mandatory compliance with tax, national insurance and pension contributions on part of the employee's wages. *Under-declared employment* arrangements in this study provided the employee with an extra income alongside their declared wage while allowing the employer to make a financial saving by avoiding the costs associated with full compliance.

Under-declared employment was most notable in this study in formal trainee positions, such as government backed apprenticeships. Apprenticeships provide necessary on-the-job-training for careers in practical household services such as heating engineers and electricians. This early work experience and formal training provides the actor with knowledge and skills to conduct each trade and understand the more job specific rules and regulations. As previously discussed in Chapter 5, the legal apprentice wage is below normal minimum and living wage requirements and currently is £4.15 for an apprentice in their first year of training or under the age of 19. This is compared to standard national minimum wages of £6.45 for a for 18–20-year-old rising to £8.20 for a 21–24-year-old (figures correct as of March 2021). Due to the low wage associated with apprenticeships actors in this study often supplemented their income with IEA to survive. Other respondents in this study also reported experience of *under-declared*

employment beyond their current trade. For instance, some now service sector business owners encountered *under-declared employment arrangements* earlier in their career. For example, this dual wage system was discussed as being part of normal practice in some retail stores.

In all cases, *under-declared employment* was encouraged by the apprentice or trainee's employer and/or supervisor who also sometimes facilitated informality. In many scenarios the informal work opportunities which the apprentice was involved with were initiated by the employer who provided the trainee with an 'envelope wage' for overtime (Woolfson, 2007). This situation turned an otherwise formal apprenticeship into *under-declared employment* arrangements. In other cases, formal trainees (apprentices) looked for informal employment opportunities themselves by providing services for friends, family and acquaintances outside of their formal employment. This extra work was adopted as a means to supplement the low formal apprentice/trainee wage that they received. In both instances informal activity has been shown to be actively promoted by employers and supervisors who act as *institutional carriers* by promoting economic non-compliance as a legitimate, acceptable and sometimes expected form of behaviour in the service sector. Although the aim of an apprenticeship is to gain on-the-job training and experience of the rules, regulations and skills needed to undertake the specific trade, these apprentices also learn about the acceptability of non-compliance with tax regulations and labour laws, which is often adopted to survive.

7.2.3 Dependant Self-employment

The final work arrangement which was outlined in the findings of this study was *dependant self-employment*. *Dependant self-employment* is a false employment categorisation also called disguised employment (ILO, 2016). These actors although

legally classified as independent contractors working on a self-employed basis are treated as employees whilst not receiving the benefits of this status, such as pension contributions and holiday / sick-pay entitlement (Williams and Kayaoglu, 2020). These actors work for the organisation through a self-employed contract although rely on one employer, often at a single place of work, and receive instruction and supervision on how and when to conduct the work.

In the sample, this form of arrangement was most prominent in the hairdressing industry, but was also evident in different building trades, such as ground workers, painters, decorators, and car mechanics. *Dependent self-employment* can be seen as a method for the employer to reduce their legal responsibilities and to save time and costs as the employee becomes responsible for maintaining their own regulatory contributions, such as tax and national insurance. In these circumstances the employee conducts unpaid duties which would normally be paid. For example, a hairdresser working on a *dependent self-employed* basis was only paid a percentage of the actual money taken from the services performed, although they were still responsible for maintaining salon standards, such as cleaning beyond their own workspace, answering the phone and manning the reception desk. Similar situations in different environments were also present for those working as ground workers on building sites, painters, decorators and car mechanics who were all encouraged by their employers to accept *dependent self-employment* arrangements.

In conclusion, the various *informal employment arrangements* outlined in this study play a significant part of each service sector actors' introduction to the working environment. By exploring this early experience of informal activity, the study has shown that *informal employment arrangements* help to explain why IEA is considered as

an accepted and legitimate practice and form of behaviour. This early experience of informal activity is often guided by advice from *corporate agents* (such as employers and supervisors) who act as *institutional carriers*. This advice contributes to the long-term belief that informal activity is an appropriate situational logic that often becomes a taken for granted practice in some circumstances. The findings from this study also show that the early exposure to *informal employment arrangements* has a causal influence on the future decisions and behaviour of other actors such as customers. The customers once conditioned to accept the legitimacy of informal activity go on to encourage others, such as formal businesses owners, to adopt informal practices by bartering and applying pressure to achieve cash discounts

Informal employment arrangements are believed to account for 61.2% of all global employment, which equates to around two billion workers (ILO, 2018). When considered through the conceptual framework adopted in this study these findings mean that around two billion workers are currently being conditioned to accept IEA as a legitimate, acceptable and taken for granted practice. Evidence of further *structural conditioning* is seen within more recent studies, for instance Williams and Kayaoglu (2020, 2021) take evidence from a 2019 survey of 27 European countries plus the United Kingdom, which indicates that 1 in 28 citizens had participated in undeclared work in the last 12 months, with 80.3% of this undeclared work being concentrated in service sector industries. The findings from this research are consistent with the work of Williams and Kayaoglu (2020) as many of the respondents experienced *informal employment arrangements* in service sector roles. However, these experiences of informal work extended well beyond this typical 12-month period in some cases. For example, participation in undeclared work was experienced 45 years

before prior to the interview for this study, with this early experience still having a causal influence on his business activity today.

In practice, *informal employment arrangements* as part of an actors early career *structurally condition* future decision making through direct observation (Barley and Tolbert, 1997) and a variety of other mediums such as discourse, stories (Fleetwood, 2005), narratives and direct instruction. This *structural conditioning* results in the pre-existing normative and cultural belief about the acceptability and legitimacy of IEA becoming ingrained into the actor and their future practice. This early instruction also provides guidance for which situations economic non-compliance is appropriate for. This is important to understand as although the actors in this study adopt informal economic practices at times, their businesses are primarily formal – informal activity is only adopted in specific scenarios and situations.

Structural conditioning of decision making must also be considered as non-determining as social systems remain open, meaning that the same causal power can produce different outcomes (Sayer, 2000). Furthermore, actors are always “capable of resisting, repudiating, suspending or circumventing structural or cultural tendencies” (Archer, 1995, p. 195). Although the actors in this study display agency, the choices which are made are based on the prior *structural conditioning* from an institutional environment which was not of their making as it has been inherited from the past actions of others (Archer, 1995). Observable social practice such as IEA at the final *structural elaboration* stage of the morphogenetic cycle is in fact an agential response in consideration of both, previous *structural conditioning* and the current contextual environment which the actor faces at the *interaction* stage (Archer, 2010b). This contextual environment can both impede or facilitate different forms of agency (Archer, 2003) making some

situational responses possible and others impossible regardless of the actors desire. The next stage of the cycle must therefore look at exploring the institutional context which actualises beliefs about the acceptability of informal activity. By adopting informal practices, the actors in this study further contribute to the embedding and carrying the belief that informal activity is both an acceptable and legitimate practice for other actors, creating a vicious circle.

7.3 Interaction

The second stage of the cycle is *interaction* which explores the situational circumstances in which actors operate on a daily basis. In alignment with the extant literature on the informal economy, the *interaction* stage explains how formal institutions have failed to appropriately govern service sector actors' economic behaviour, making informal activity the most appropriate situational response for those involved. The findings from this study are consistent with the work of Webb and Ireland (2015) who maintain that wider institutional imperfections can contribute to the attractiveness of informal activity, whereby society turn to informal institutions when the formal institutions fail. Moreover, Williams (2019) maintains that formal institutions can fail for a variety of reasons, such as, "resource misallocations and inefficiencies; voids and weaknesses; powerlessness; instability and uncertainty" (p. 27). The typology of institutional failures provided by Williams (2019) was adopted in this study (Section 6.2) as it provides a useful classification of how formal institutions may fail to appropriately govern market activities.

Chapter 6 discusses how formal institutions fail to govern the service sector actors appropriately in a variety of ways. Formal regulatory failures can create a costly and over-burdensome and problematic market situation which increases an actor's

reliance on the informal economy. In this study formal institutions are seen to fail service sector actors in a number of ways; *institutional weaknesses* (Section 6.2.1), *uncertainty* (Section 6.2.2), *powerlessness* (Section 6.2.3), and *misallocations and inefficiencies* (Section 6.2.4). These various failures are summarised beginning with *institutional weaknesses*.

7.3.1 Institutional Weaknesses

Institutional weaknesses are related to regulations which fail to govern economic behaviour appropriately. In this study these weaknesses were related to disproportionately burdensome and costly regulations such as VAT and labour law. As an indirect business tax, VAT became problematic as service sector businesses are largely labour intensive and primarily deal with private customers who are price sensitive, therefore passing on the costs associated with VAT regulation becomes an issue for these otherwise formal businesses. This is more problematic for the service sector businesses owners in this study when having to compete with *serial off-the-books traders* who rarely comply with these costly rules, and other formal businesses who have managed to stay below the mandatory registration threshold (which is currently set at £85,000 – March 2021). In some cases, staying below the mandatory VAT registration threshold becomes so important to the businesses owner that informal economic practices are adopted to avoid this regulatory requirement.

Labour law is also problematic for these small service sector business owners for two main reasons. Firstly, the complexity of employing people is often not well understood and therefore linked to *institutional uncertainty*, secondly in some instance's employees are not required on a permanent basis as their assistance is often related to market demands which fluctuate. Therefore, by avoiding labour law the business owners in this study gain a degree of operational flexibility which allows

them to meet short-term market demands and to also avoid the overly burdensome administrative requirements imposed upon them.

While informal employment is typically considered to be negative, in this study the findings indicate that those involved can benefit both financially and socially. The opportunities these arrangements provide to those who are otherwise unable to secure formal employment or require an informal subsidy for other reasons are seen to be largely positive in this study. However, employing people on an informal basis creates unintended problems for business owners as the money required to pay these employees needs to be unaccounted for (informal) which further drives the need to operate informally, not declaring all income from the business's primary activities.

Finally, *informal employment arrangements* go onto re-create the *structural conditioning* of this cycle for the future set of service sector business owners or customers. These types of *informal employment arrangements* have been shown to embed informality into beliefs by providing scripts for future activity of those who are employed this way. Although *informal employment arrangements* have been seen to be adopted in order to avoid the burdensome and costly requirements (*institutional weaknesses*) they affect actors at different stages of the cycle differently, making specific rules temporal in the influence they have.

Service sector business owners are considered as *institutional carriers* at the *interaction* stage. Due to the contextual environment and prior *structural conditioning* of decision making these formal business owners now promote *informal employment arrangements* in their current businesses. A situation which results in any new employees going through *structural conditioning* as part of their own morphogenetic cycle. The formal

business owners involved in this study now act as *institutional carriers* by disseminating stories and beliefs about their prior experiences and early learning. A process which has causal effect on the future activities of others as informal activity becomes widespread.

7.3.2 Institutional Uncertainty

Institutional uncertainty is also shown to contribute to IEA by service sector business owners. The actors in this study are well qualified professionals in their relevant trades, having learnt the skills required through a formal training scheme or as part of a time-served basis. However, these service sector actors in most cases have never received any type of training concerning formal government regulations which govern market activities. The actors in this study often rely upon their previous experiences – which often involved *informal employment arrangements* – to guide decisions.

When faced with *institutional uncertainty* actors were also seen to turn to other professionals for advice. For example, at this *interaction* stage of the morphogenetic cycle, accountants have been identified as *institutional carriers*, who facilitate informal activity by promoting the benefits of non-compliance with formal rules at times of *institutional uncertainty*. In this relationship the business owner can be seen to adopt a *primary agent* position as they are unsure of how to proceed, the accountant becomes a *corporate agent* as they are often seen as a trusted advisor (Bennett and Robson, 1999; Ram et al., 2019) with the skills and knowledge of formal institutional systems which business owners lack. In many cases accountants were seen to provide advice on how to follow the formal rules, but sometimes also encouraged economic non-compliance by both directly and implicitly suggesting informal economic practices. What is unclear in this study is the motivation of these accountants to either explicitly or

implicitly promote informal activity. It could be the case that by working with small businesses and helping them avoid rules where it is financially beneficial to the business owner, the accountant can gain a positive reputation and therefore gain customers of their own. A further empirical study could focus on accountants to better understand their motivation and the role that they play in non-compliant economic activity.

A second *institutional carrier* related to *institutional uncertainty* is Her Majesty's Revenue and Customs (HMRC). Although the HMRC does not positively suggest or promote informal economic behaviour, their failure to adequately disseminate the required information about the formal regulatory requirements can lead to *institutional uncertainty*. Individual business owners are negatively impacted by a lack of understanding and information, which can contribute to further informal activity and/or reliance on other *institutional carriers* for advice.

7.3.3 Institutional Powerlessness

Institutional powerlessness refers to the lack of government power to enforce or influence businesses to comply with regulatory requirements (Webb et al., 2009). In this study *institutional powerlessness* is seen in the existence of *serial off-the-books traders* who work beyond the enforcement powers of the government. Within the *institutional powerlessness* theme this study also considered the various rules, regulations, trade associations and technological advancements which provide fully informal businesses a means to compete for work alongside formal businesses.

Initially operating on an informal basis provides an important platform from which to launch a more formal business (Williams and Kedir 2018), in some cases this correlates with higher revenue growth once formalised in comparison to businesses

which started as formal at conception (Williams and Kosta, 2020). Early-stage entrepreneurs often use the informal economy as testing grounds for ideas which allow them to avoid the costs associated with registration (Siqueira et al., 2016). For instance, Autio and Fu (2015) estimate that in the Asia Pacific region around two thirds of business start-ups are unregistered. Regardless of the future plans to formalise, these informal businesses have a detrimental effect on market conditions. Many of the formal business owners in this study attested that they are often forced to price match with non-compliant businesses. A situation which can in some cases only be achieved by avoiding the mandatory regulations such as direct and indirect tax. Support for this can be found in existing studies which show that formal firms can and often do turn to informal activity to limit the threat of informal activity (Iriyama, Kishore and Talukdar, 2016).

The findings show that starting informally is considered an acceptable practice to raise capital, but it can lead to serious long-term problems. For instance, starting informally and avoiding all mandatory costs and taxes can give a potentially unsustainable competitive advantage which is built on a low-cost pricing model. This, in turn, means that the informal business can never formalise as they have failed to factor in the costly and often time-consuming mandatory regulations which need to be followed in order to become formal.

Regulatory trade associations also cause problems for formal service sector business owners. For example, specific trades were regulated by trade associations with membership being mandatory, such as Gas Safe for heating engineers (previously Corgi). Maintaining membership to these mandatory associations is a costly and often time-consuming process which largely informal service sector businesses avoid. The

costs associated with mandatory membership has to be passed on to the customer, therefore those who fail to comply illegally gain a financial advantage. Alternatively, the market presence of voluntary trade associations provided *serial off-the-books traders* with a means to appear more legitimate to customers who may not understand the difference between mandatory and voluntarily trade associations. For instance, in this study the Good Garage Scheme (voluntarily trade association for motor mechanics) was highlighted as a method often used by less formal garages to appear more legitimate and competent.

Specific regulations aimed at regulating activity were also identified as problematic in reference to certain trades, such as car sales. the introduction of more rules and regulations only caused a financial burden to those who comply, allowing fully informal businesses another means to cut costs as the government seem to be powerless to enforce the rules evenly across the formal-informal spectrum. For example, the Sales of Goods Act (2015) was introduced to provide customers with more protection from poor and illegal business activity. The introduction of this regulation meant formal businesses had more requirements to comply with. The least formal businesses which this legislation was intended to bring into compliance seem to continue to avoid the regulations, whilst those who already comply bear an additional financial burden. Finally, advancements in technology provided informal competitors with a means to appear more legitimate and compete on the same level with more formal businesses. For example, advancement in website design and the increase in platforms for selling items has provided otherwise small-scale informal businesses with a national and global presence. Again, this allows *serial off-the-books traders* the means to save costs and compete with otherwise formal businesses.

At the *interaction* stage of the morphogenetic cycle the primary respondents (formal service sector business owners), accountants and the HMRC, have all been identified as *institutional carriers*. These *institutional carriers* are responsible for *transporting* ideas and messages regarding IEA from place to place and from time to time (Scott, 2014). Customers are also classified as *institutional carriers* at the *interaction* stage of the morphogenetic cycle as they play an essential part in the continued existence and ongoing institutionalisation of informal activity at the meso and macro-level. Customers within these findings are shown to operate as rational economic actors, trying to achieve cost savings by displaying power over the business owner. The business owners in this study are already shown to be operating in a problematic institutional environment which is characterised by various *formal institutional failures and imperfections* which negatively affect the actor's ability to profit from their business activities. When considered alongside the relative power of a customer acting as a *corporate agent* by demanding lower prices in return for cash payments the business is faced with a tough decision. For instance, a common scenario a small formal business owner often faces is whether to lose the customer to a rival formal or largely informal business or adopt informal economic practices to accommodate the customer demand for discount. Unfortunately, this is a common occurrence small service sector business owners face. This may not be such a tough decision, as non-compliant economic practices are already believed to be acceptable due to the business owner's earlier *structural conditioning* which embedded informality into practice.

7.3.4 Institutional Misallocations and Inefficiencies

A final theme which appeared in the findings from this study was *institutional misallocations and inefficiencies*. *Institutional misallocations and inefficiencies* are related to the perception of government corruption which often causes a breakdown in the social contract between citizens and the government – leading to institutional asymmetry

(Webb et al., 2009; Williams and Horodnic, 2017b). This situation can leave actors preferring to follow informal institutions and adopt non-compliant economic practices due to a lack of trust in the government. This lack of trust or belief in widespread corruption has no direct causal affect. Williams and Horodnic (2015) maintain that the greater the missalignment between formal and informal institutions the higher the chance of non-compliant economic activity. Whilst this may be the case at the meso-level, at the micro-level (examined within this study) the motivation to adopt informal economic practices is more closely associated with the practical problems that formal rules and regulations provide. For example, the individual actors in this study adopt informal practices to avoid formal rules and regulations which have failed to govern their economic behavior appropriately or to address the threat of informal competitors – regardless of the individual actors' beliefs that the government may be corrupt or miss-spending public funds.

The findings from this stage of the conceptual framework show that although actors do not align with the government in charge, this belief is more often used as a means to support the decision to behave informally as opposed to causing informal activity. This is significant as it builds upon and advances the existing institutional asymmetry perspective by providing a temporal and relational explanation that aligns institutional missalignments with the later stages of the morphogenic cycle namely, *structural elaboration* (Figure 7.1). Although the actors in this study lack trust in the government, for various reasons, this seems to have no direct causal power at the *interaction* stage of analysis.

7.4 Structural Elaboration

The final stage of the morphogenetic cycle is *structural elaboration*, whereby the result of prior *structural conditioning* and conditions at the *interaction* stage the existing structures are maintained (morphostasis) or changed (morphogenesis) for the next cycle (T⁴ in Figure 7.1). At the final stage of the morphogenetic cycle service sector actors adopt IEA's and in doing so are maintaining the pre-existing informal institutional norms, values and beliefs regarding the acceptability and legitimacy of informal activity. This maintains these norms, values and beliefs for future cycles creating a morphostatic cycle as no real changes have happened over the period studied. The actual practices may deviate and evolve from actors' prior learning of informal activity; while actors have maintained the existing informal institutional beliefs regarding the acceptability of IEA, which remains a legitimate form of behaviour. This morphostatic cycle goes on to *structurally condition* the next cycle which leaves new actors to face a similar situation. Informal activity is destined to remain a persistent part of business activity in the service sector because of this morphostatic cycle.

7.5 Conclusion

By adopting a generative view of causation through the application of the conceptual framework this study has been able to explain the emergence of IEA. The micro-level account of informal activity developed is underpinned by the Critical Realist (CR) stratified ontology. The CR ontology has been applied through a morphogenetic framework (Archer, 1995). The morphogenetic approach has allowed this study to explain IEA as the empirical manifestation of a series of temporal and relational institutional factors situated at discrete but inter-connected stages and ontological layers.

This study builds upon existing accounts of informal activity which often fail to explain or acknowledge the early *structural conditioning* of decision making by implicitly presuming that the existence of the normative belief and cultural acceptance of informal activity can influence agency. However, as Ram et al. (2001) describe economic informality is the result of “unwritten customs and tacit understandings that arise out of the interaction of parties at work” (p. 846).

The micro-level explanation provided here has shown how actors are exposed to pre-existing informal institutional customs and unwritten tacit understandings regarding the legitimacy of informal activity. This is achieved through *informal employment arrangements* which *structurally condition* future decision making. Informal institutional beliefs concerning the legitimacy of IEA will have no effect on the actor, unless these beliefs are first encountered and accepted at the micro-level. *Structural conditioning* has been shown to be the process which embeds the belief that IEA is both an acceptable and legitimate form of behaviour as governed by informal institutional rules. These informal institutional beliefs can then act as a causal mechanism at later stages of the cycle by providing the actors with directional guidance for future decisions and an acceptable situational response, through a mimetic logic. Viewed from a positivist causal position, or through a quantitative lens, the early experience of *informal employment arrangements* leading to future informal economic business practices could arguably produce the repetitive observation needed to justify a sequential and successionist explanation. From the CR approach taken in this study, early experiences only form one part of a more complex story, as they are merely demi-regularities (Lawson, 1998). The *structural conditioning* of decisions may or may not lead to non-compliance with rules and regulations. Ingrained beliefs about the

acceptability of informal activity must first be actualised, a situation which is again temporally and relationally dependent on other institutional factors. These institutional factors are present in the later stages of the morphogenetic cycle and the actor's day-to-day timeline, namely *interaction*.

The second stage of the of the morphogenetic cycle (*interaction*) explains how the micro-level environment of service sector actors contributes to informal economic responses. The granular level explanation developed in this study provides an account of how formal institutions fail and imperfectly govern economic activity, resulting in the actor adopting informal economic practices – as they consider these to be the most suitable situational response. The *formal institutional failures and imperfections* which characterise the *interaction* stage for the actors in this study form the second part of the causal sequence. Formal *institutional failures and imperfections* at the *interaction* stage can only actualise a pre-installed belief, they do not force or determine an actor's response alone – since individuals always retain a degree of freedom. Formal institutional failures and imperfections merely provide the motivation for non-compliance whereas the rationale is based on previously installed “scripts for action” (Scott, 2014, p. 69) which have been inherited from the past (Lowndes and Roberts, 2013) and embedded in practice during the *structural conditioning* stage. Although rational and considered, this response is often related to survival as opposed to profiteering.

The extant study of the informal economy implicitly focuses on the *interaction* stage of analysis which often equates an increase of economic informality with the effects of regulatory failures (Ireland and Webb, 2015) or a lack of trust in the government and other actors (Williams, 2020; 2021). This leads to low tax morale and future more

economic non-compliance. By illuminating the importance of understanding prior experience as one part of a complex causal story alongside formal institutional failures in regard to future informal economic practices, the findings from this study advance knowledge of informal activity. This study shows that the actor must first consider IEA as being both an acceptable and legitimate form of behaviour which pre-exists the decision to not comply with formal rules.

IEA is the result of a combination of temporally related events. *Informal employment arrangements structurally condition* the actor to accept informal activity as a legitimate and acceptable practice followed by *formal institutional failures and imperfections* which create a market situation that actualises the prior conditioning. IEA is adopted based on ingrained and embedded normative and cultural beliefs regarding its accepted legitimacy. The causal power of *structural conditioning* may sit dormant and have no causal effect without the correct environment and market conditions. The future environment may also “*retard the actualisation*” (O’Mahoney and Vincent, 2014, p. 16) of a mechanism as well as trigger it. For example, in a situation where IEA is considered to be completely unacceptable, undesirable or impossible, early *structural conditioning* will have no causal power. For other businesses or actors such as *serial off-the-books traders* who have no intention of complying, informal economic behaviour may become a dominant rationale for action regardless of its wider acceptability. This situation may be due to different experiences in the *structural conditioning* or *interaction* stages of the morphogenetic cycle. This would need further empirical verification by exploring other business types such largely informal businesses.

The temporal relationship and causal power of early exposure to *informal employment arrangements* and various *formal institutional failures and imperfections* are significant

findings. These findings show how the institutional environment works over a period of time, therefore it needs to be analytically separated into discrete but relationally connected temporal moments to fully understand a social practice such as IEA. By separating informal activity into discrete but relationally connected temporal moments this study builds upon the extent study of informal activity by providing a more precise explanation of an actor's motivation and rationale for economic non-compliance. The critique of the existing theoretical understanding of informal activity (set out in Section 2.5), which implicitly treats the institutional environment as being invariant, is supported by explaining how the institutional environment influences practice over different periods.

This study also highlights the causal importance of *institutional carriers* which is otherwise incompletely understood when explaining IEA. *Institutional carriers* are responsible for promoting informal economic behaviour by transporting pre-existing institutional messages regarding the legitimacy and acceptability of IEA. The findings indicate that employers, supervisors and managers act as *institutional carriers* at the *structural conditioning* stage who through their experience and relative position of power are classified as *corporate agents*. As *corporate agents*, the messages they deliver have a lasting effect on the primary respondents' beliefs. Indeed, as *corporate agents*, employers can be seen as acting in a strategic way to achieve their own goals by avoiding specific mandatory regulations. Whereas the service sector actors in this study in the early stages of their career and the morphogenetic cycle are classed as *primary agents*; due to naivety in the working environment and lack of organizational skill make them unsure of how to behave. *Primary agents* work in the institutional context and follow the institutional rules defined by their employers. At the *interaction* stage other *institutional carriers* provide causal influence. For example, accountants

often provide advice regarding the benefits of non-compliance; customers, due to persistent bartering for cash discounts, further embed informality into practice; finally, the HMRC act as an *institutional carrier* by failing to adequately inform business owners of regulatory requirements in a timely manner – resulting in more informal practices.

This study calls for future research on the informal economy to consider the influence of the institutional environment as being temporal and relationally dependent on a variety of factors and *institutional carriers*. Any account of informal activity which fails to acknowledge the temporal power of institutions on practice provides a narrow account of informal activity.

7.6 Chapter Summary

This chapter has provided a synthesis and discussion of the institutional findings from this study in relation to a complete morphogenic cycle. This synthesis of the findings has directly addressed the research aims and objectives of this study. By presenting findings in this way a micro-level theoretical explanation of IEA has been presented, explaining how the interplay between the institutional environment (formal and informal institutions) and agency generates informal economic practices over time. Additionally, this chapter identifies and examines who is responsible for carrying institutional messages regarding the acceptability and legitimacy of informal activity within the institutional environment in alignment with a morphogenic cycle. By achieving these aims and objectives this study has advanced the current theoretical understanding of IEA. Furthermore, the micro-level explanation developed in this thesis also makes a contribution to knowledge by explaining which institutional

factors matter in regard to formal service sector business owners who adopt informal economic practices; a previously underexplored area of activity.

Chapter 8 - Conclusions

8.1 Introduction

This chapter will recapitulate the main aim and objectives of this study before contributions are explicitly highlighted. This chapter will then discuss the limitations of the research before the outlining the implications of these findings for future research on the informal economy and related policy.

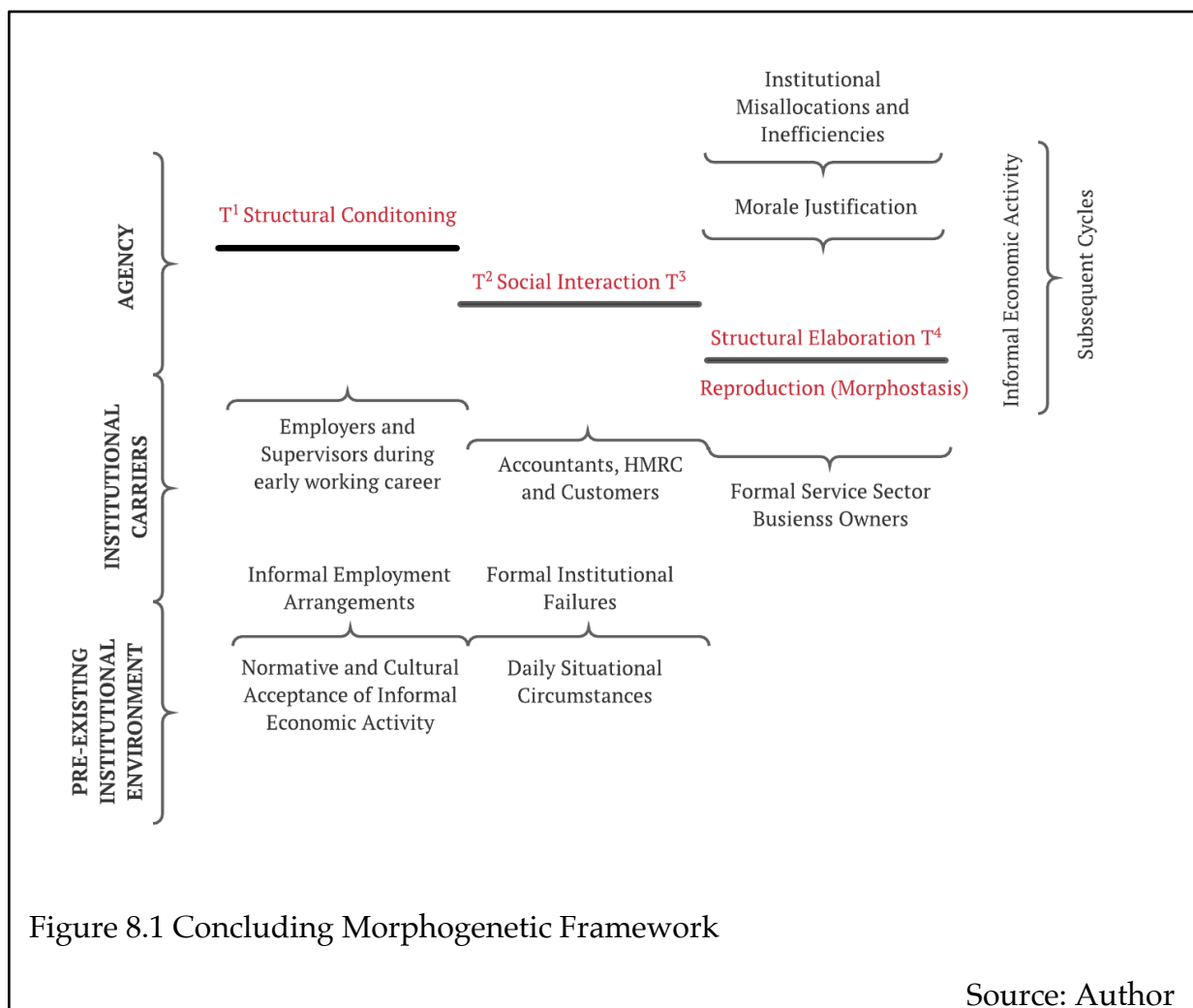
8.2 Aim of This Study

The main aim of this study has been to develop a detailed micro-level understanding of informal economic activity (IEA). The study has achieved this aim by addressing the previously identified gaps in explanations of IEA (Section 2.5) whereby the institutional environment is often implicitly treated as being invariant over time, and structure and agency are often conflated. This study advances the current theoretical understanding of the informal economy by explaining the relational and temporal interplay between the institutional environment (formal and informal) and individual agency. Furthermore, this study also advances the empirical understanding of IEA by directly engaging with service sector businesses as they remain a largely unexplored empirical setting in consideration of IEA (Kedir, Williams and Altinay, 2018).

In this study, the institutional environment consists of both formal and informal institutions, along with *institutional carriers* who promote economic non-compliance. The aim of this study can be broken down into two main objectives:

1. To explore how the interplay between the institutional environment (formal and informal institutions) and agency generates informal economic practices over time.
2. To understand how messages regarding the acceptability and legitimacy of informal activity are transmitted within the institutional environment.

To address these objectives, the study adopted insights from Critical Realism and the morphogenetic framework (Archer, 1995). This conceptual approach (Figure 8.1) has allowed this study to explore and examine how the relational and temporal interplay between the institutional environment (formal and informal) and individual agency leads to the emergence of IEA.



More specifically, the conceptual framework has allowed this study to more precisely explain how the institutional environment impinges upon the actors in this study at the micro-level. Explaining why actors consider informal economic behaviour as being acceptable and legitimate (T¹-T² Figure 8.1) and also the situational conditions (T²-T³ Figure 8.1) which then lead these otherwise formal service sector business owners to adopt non-compliant economic behaviour (T³-T⁴ Figure 8.1).

8.3 Main Contributions of this Study

By generating a morphogenetic explanation of IEA by otherwise formal service sector businesses, theoretical and empirical understandings have been advanced.

Theoretically, the micro-level account of IEA developed here has provided a detailed account of how IEA is the emergent result of the interaction between formal and informal institutions with agency over time. These findings build upon and advance the current institutional understanding of IEA by explaining the temporal and relational interplay of the institutional environment and the actors involved. Previous studies have statistically outlined and quantitatively explored the importance of understanding the relationship between formal institutional failures and informal norms, values and cultural beliefs; how this works at the micro-level has been largely unaddressed until now.

The first significant contribution this study makes is by advancing the theoretical understanding of the informal economy. This is achieved by reconsidering the institutional environment of the actors involved with IEA through a Critical Realist (CR) philosophical position. Critical Realism is operationalised through the morphogenetic framework (Archer, 1995). This allows a detailed understanding to be

developed of both the relational and temporal power of institutions in relation to individual agency by focusing on understanding the discrete but related stages of the cycle. More specifically, this study has provided an understanding of which institutional factors matter, when and why in regard to the prevalence of informal activity. This study has explained that an actors decision to adopt informal economic practices is contextually grounded in diverse and dynamic institutional circumstances over a period. This moves beyond the dominant interactional focus of other studies, which treat institutions as invariant. Understanding the temporal and historical power of the institutional environment on decision making helps to illuminate how decisions are historically dependent on past experience. As a result of these findings future policy decisions must also account for these historical and temporal institutional influences to successfully shift informal work into more formal arrangements.

This study has also explored the theoretical importance of *institutional carriers* who promote and encourage IEA. *Institutional carriers* are depicted as the link between the institutional environment and agency, which this study finds as having theoretical importance due to the causal influence they have on future actions and decisions. As a result, understanding *institutional carriers* and the messages they carry should be considered as an essential consideration for future policy decisions and further study of the informal economy.

The findings from this study also advance the institutional asymmetry explanation of IEA. The findings indicate that although low levels of trust in the government may exist at the meso and micro-level (see Section 6.2.4 - *institutional misallocation and inefficiencies*) these, too, only have a temporal causal relationship with future economic

activity. The service sector actors in this study do not always align with the government and other formal institutions, this does not directly influence action. This lack of trust only provides actors with a justification for non-compliant economic activity after it has happened. IEA is shown to be the result of the prior *structural conditioning* of decision making alongside the practical problems that various formal institutional failures present at the *interaction* stage of the cycle. At the micro and meso-level the lack of trust in government allows the actor to legitimise and believe that the decision they have made is acceptable.

Finally, by developing a micro level understanding of the informal economy, significant contributions are made at the macro level. As Hobbs (1988) reminds us without “some tactile quality, a qualitative base, then any ensuing policy is in danger of being essentially one-dimensional directive”. The findings from this study have indicated that without micro level clarity on how institutions and institutional carriers (both formal and informal) work and influence behavior future policy responses can lead to, and often do have unintended consequences such as the increase of informal activity. For instance, this study highlights (Section 7.3.3) how macro level rules aimed at forcing compliance only affect those business who are already intent on complying as *serial off-the-books traders* cannot or will not comply for a variety of other reasons. As seen in this study a deterrence-based approach can often force largely compliant businesses into bankruptcy or financial hardship which increases their reliance on IEA. In conclusion by focusing on the micro level this study has highlighted the importance of understanding the intricacies and the actor’s different stages of decision making which would typically be inaccessible through a largescale study. Without a clear understanding of the actual effect of formal rules on those they regulate there will always be limitations on their effectiveness.

In practice by understanding IEA at the micro level government agency's such as the HMRC can more efficiently deploy resources and/or produce more effective and timely policy responses at the macro level. For example, deterrence-based approaches should aim at converting and educating largely formal businesses whilst focusing on penalizing those who do not intend on complying. Furthermore, in Chapter 5 this study highlights how actors are structurally conditioned to accept informal activity long before a business is created or considered as desirable. As a result, macro level tax education programmes may be more effective earlier in the actor's career, for example as part of the government backed apprentice scheme which many service sector employees complete whilst learning their trade.

Empirically, this study has contributed to the scarcity of literature on informality in formal service sector businesses. The data presented here provides a detailed account of which specific institutional factors matter; when, why and how they impinge upon and impede the business owners in this study. These empirical accounts have implications for future policy decisions and research on the informal economy.

Methodologically, this study has highlighted the power of the Critical Realist philosophical approach and its accompanying generative view of causation. Working backwards from the known (i.e., informal economic activity) with a retroductive logic and searching for the underlying mechanisms and structures, this study has progressed the existing understanding of informal activity. This study has also outlined that the chain referral sampling process (Section 4.3.2) and active interviews (Section 4.4.1) are a suitable approach for researching hidden populations, such as those who adopt informal economic practices. This approach to sampling and

interview allows a researcher to build the necessary rapport with the participants to go beyond surface level discussion.

8.4 Limitations of the Study

Although this study has made contributions to knowledge, it also has some limitations, which need to be recognised. Statistical generalisation is not an achievable in this study due to the small number of actors involved. This is the result of the use of a qualitative case study methodology and chain referral sampling method, which achieves in depth accounts and explores what is happening within cases rather than how frequently. Furthermore, these cases are contained within a particular context, namely formal service sector businesses within a developed economic setting (the East Midlands region of England). However, from the CR philosophical approach total generalisations are not considered as being achievable as all knowledge is considered fallible due to the open system, which is society (Sayer, 2000). Therefore, these findings are considered as being context specific.

As the qualitative case study approach adopted in this study focuses on understanding the "particularities" and "uniqueness" (Abma and Stake, 2014, p. 1150) of cases in great detail, inferential and theoretical generalisations (Lewis and Ritchie, 2003) can be made. The "thick description" (Geertz, 1973, p. 6) provided throughout the findings and discussion chapters allow for inferences to be drawn about other contexts or sectors. However, these will need further refinement and empirical investigation with the overall transferability of this research to other settings needing to be assessed by future researchers. Theoretical generalisations are also possible from the findings in this study due to the identification of generative causal mechanisms and processes in operation (O'Mahoney and Vincent, 2014). These may be present in

other cases and may remain relevant in other contexts (although the outcomes may differ due to other contextual factors present).

Researcher subjectivity could also be considered a limitation as the sole researcher in this study has, through their professional experience, a working understanding of IEA. As a result of this background, complete objectivity was considered impossible (Crotty, 2014; Saunders, Lewis and Thornhill, 2016). However, as Maxwell (2013) asserts these personal characteristics, prior experiences, beliefs and values should be embraced as they cannot be eliminated. A chain referral sampling method was used in this study to minimise the impact of the researcher's professional understanding and network, maintaining a degree of separation between the researcher and the respondents.

Researcher reflectivity was also considered in great detail with various other tactics (Section 4.6) adopted to further minimise bias and validate findings. Critical Realism as used in this study adopts a confessional based approach to reflexivity (Finlay, 2012) as a degree of subjectivity is unavoidable. This approach means that reflexivity is considered a developmental journey as opposed to an objective destination, with both prospective and retrospective considerations (Attia and Edge, 2017). Prospectively the researcher introduced steps to build trust and credibility in the findings (Section 4.6). Observations and reflections were made throughout the research to avoid "knee-jerk" decisions or conclusions (Lynch, 2000, p. 27). For example, meetings with the supervisory team and external experts were conducted to discuss potential biases, general assumptions about the research process and the data collected. This process was supported with a reflexive journal (Section 4.7.1) which was used to record and

unpack the researcher's own thoughts and general assumptions about the data collected and the research journey.

8.5 Implications of this Study

8.5.1 Implications for Future Research

This study has advanced the current theoretical understanding of IEA by highlighting the benefits of considering the institutional environment as a series of discreet but temporally related events as opposed to being invariant over time. By adopting morphogenetic insights, this study maintains that the institutional environment and agency work in temporally discrete but relationally intertwined way when considering a social phenomenon such as IEA. Informal economic activity is the causal result of a complex series of events which happen over an extended period. This goes beyond the explanation offered by large scale survey approaches or more successionsit forms of causal analysis which fail to consider anything beyond an actor's description and are overly reliant on statistics and figures.

This study has described how actors are *structurally conditioned* to accept IEA through various *informal employment arrangements*. Future studies may seek to understand the *structural conditioning* of those involved with IEA in different contexts and backgrounds. For example, this study has explicitly focused on largely formal businesses; therefore other studies may seek to understand the *structural conditioning* of decision making in other contexts such as *serial off-the-books traders* and the situations in which these pre-conditioned beliefs become actualised. Alternatively, future studies may build upon the data collected within the supplementary interviews with customers who purchase goods and services from the informal economy, to more

precisely understand their *structural conditing* and situations at the *interaction* stage of their specific morphogenetic cycle which actualise thier beliefs.

Finally, this study has focused on developing a causal account of the emergence of IEA for a group of service sector actors. These findings focused on a morphogenetic cycle associated with the actors' working careers. Future studies could take a more historical view by considering the emergence of IEA over a more extended period. As the findings from this study have indicated, history matters. Understanding informal activity over a more extended period may help to explain how the overall social acceptability of economic non-compliance has emerged in the present day. Furthermore, understanding how formal institutional rules and regulations have failed to govern economic behaviour historically may further help with future policy decisions.

8.5.2 Implications for Policy Decisions

Tackling IEA has become an important consideration for all national governments and supra-national organizations due to the size and global significance. This recognition has meant that transitioning IEA into more formal arrangements (ILO, 2014) has become a key concern as it is the most feasible policy objective (Williams, 2019). For example, various policy measures can be adopted (Section 2.2.4) to achieve formal compliance. This approach is largely based on the government's view of those involved with non-compliant economic behaviour. On one hand, if those involved are considered as rational economic actors, the government may seek to alter the cost to benefit ratio of non-compliance by introducing punitive measures. On the other hand, a government may consider those involved as social actors and seek to transition IEA through indirect approaches such as education and normative appeals to bring about voluntary compliance.

The findings from this study have indicated that this group of service sector actors cannot be completely aligned with either the rational economic or social actor perspective. Therefore, any specific approach adopted, which is based on these understandings alone, would fail to achieve the desired result. For example, the actors involved with IEA can be considered as rational and reasoned in their behaviour as they make choices to further their interests, however, these formal businesses owners do not intend on profiting from this deviant behaviour. Rather, IEA is often the act of trying to avoid the financial penalties associated with costly and burdensome rules and regulations and therefore, not based on profiting. Increasing regulations further may force otherwise formal businesses owners into bankruptcy or toward increasing circles of deeper non-compliance, adding to the problem.

The findings from this study have also indicated that specific rules and regulations (such as indirect tax) have a disproportionately negative effect on this group of small formal and largely labour-intensive service sector businesses. As a result, formal regulations such as VAT can increase levels of IEA for formal businesses as they try to avoid or compensate themselves for this financial burden. Furthermore, this study focused specifically on formal businesses who have explained that increasing regulations and punitive measures assists *serial off-the-books traders* to gain a competitive advantage as they often do not have an intention to comply with rules. Adding to regulations with the intention of increasing compliance would only penalise those who are willing to comply by impeding their operational flow with more burdensome and costly regulations. Future government resources and policy approaches should reconsider businesses who adopt IEA on a spectrum of compliance and non-compliance as seen to be the case in this study. This would allow

governments to focus resources on different approaches for different segments of the formal-informal spectrum. For example, policy may look at eradicating those businesses or actors who are predominantly long term non-compliant as a policy goal through introducing more punitive measures. Alongside a policy focus on transitioning largely formal business or informal start-ups to become more compliant with a targeted education approach. The findings from this study would also suggest that a government approach which targets different sectors, industries and businesses with regards to rules and regulations may also be beneficial when attempting to formalise informal economic activities. As the findings from this study show, specific rules and regulations may financially penalise compliance for some businesses in specific industries by forcing them into informal economic arrangements to survive.

It has also been outlined in this study that the actors involved with IEA are recreating behaviour which has been embedded in practice early in their careers due to *informal employment arrangements*. Therefore, from a social actor perspective education to generate voluntary compliance would be better targeted at younger people before and during their first experiences of work. With regard to the actors in this study, low paid apprenticeships are often the route taken into various service sector roles. During these apprenticeships actors are only formally instructed in how to perform their specific trades. Apprentices are then left to learn how to navigate future self-employment and regulations associated with compliance to other more informal methods of education. Therefore, introducing tax education into the formal requirements for those opting to do an apprenticeship or on training schemes may assist with voluntary compliance later in the actor's career. Tax education could also be introduced to the curriculum at school to inform actors of the benefits of formal

employment as well as directing them to local formal employers and job opportunities.

The findings from this study indicate that learning how to behave in accordance with the regulatory requirements associated with running a small business can often be the result of interaction with various *institutional carriers* identified in this study. Policy approaches which attempt to tackle informal activity could also target *institutional carriers* as they promote economic non-compliance. These *institutional carriers* directly assist in the continuity of the pre-existing norms, values and cultural beliefs associated with the acceptability and legitimacy of informal economic behavior.

8.6 Thesis Summary

Understanding the reality of small service sector business owners and their day-to-day interactions in their own words, terms and expressions has important scientific value. This research has provided readers of this thesis with an understanding of a context which they may otherwise not have had access too, especially as informal economic activity (IEA) is often considered part of an underground environment which may not be discussed openly.

IEA is not a simple institutional phenomenon driven by the social belief that it is acceptable and legitimate. This study has shown the complexity of informal activity which is better understood as the emergent result of prior conditioning, which is actualised by the practical problems which mandatory rules and regulations cause business owners. A business owners' adoption of informal activity is therefore not just a simple decision driven by impulse, or an entirely rational economic choice, it is actually a complex evaluation of prior structural conditioning, current problems and

economic considerations. The non-compliant economic practices that business owners adopt in turn create a vicious circle with future actors being continually conditioned to accept the legitimacy of economic non-compliance.

This study did not aim to test different hypothetical statements, rather the analysis presented in the findings is an attempt to make sense of the data after the fact and in alignment with the conceptual framework. Due to the exploratory position this study adopted when entering the field, the research approach was as open, flexible and emergent as possible whilst still maintaining scientific integrity. This approach allowed data to be collected and areas explored which would have been outside of a predefined strategy and interview approach. The conceptual framework in this study provided a simple but theoretically informed method for approaching the research. Institutional theory provided a method of categorising the data and morphogenetic insights allowed the institutional categories which were most prominent for service sector actors to be connected. By taking an institutional approach this study can be understood and compared to the existing research on informal activity which outline the causal importance of both formal and informal institutions. Archer's (1995) morphogenetic framework and its Critical Realist principles provided a simple method of understanding the emergence of a social practice such as IEA.

The actors in this study have been presented as complex decision makers often balancing compliance with over-restrictive formal rules against the reality of financial loss for their businesses. Based on their early introduction to working life which has been characterized by informal employment these now formal business owners make tough decisions on a daily basis. Although those involved with this study adopt informal practices, their motivation is business survival – IEA is not an attempt to

profit through illegal activity. The actors in this study consider economic non-compliance as morally wrong, and a situation which they never planned to find themselves in when starting their own businesses.

Running a small business is difficult, and compliance with mandatory rules and regulations is not only time consuming but also financially challenging and hard to navigate. The success and survival of small business such as those seen in this study is vital for an economy, as they provide work, contribute to GDP, inspire an entrepreneurial mindset and provide opportunities for social mobility. Everything which can be done to support business owners who try their best to operate in a formal and legal way should, therefore, be a priority for any government in charge. The implications of this study discussed in Section 8.5 for future research and policy decisions making are a starting point to better support formality and understand a rationale for economic non-compliance.

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Appendix A - Interview Guide

Opening - General Background

What is your general working background? Age group? Current profession or industry? Years at work and in business? Any employees? Mobile or fixed premises? What is your businesses legal status? Is there anything else you think is important in regard to your background?

Interview Prompts

- How did you learn your current trade or profession?
- With regards to informal activity what is your experience of it and what have you witnessed?
- How did you first experience informal activity?
- What is your experience of mandatory laws, regulations and compulsory licenses in your industry? and the organisations which enforce these?
- How did you learn about mandatory business regulations and the legal side of running a business, such as employment, tax law and licences?
- Do you think people fear being caught for not conforming with mandatory business regulations and tax laws?
- Do you think informal activity is socially acceptable?
- Do you think informal activity is more appropriate and/or acceptable in some circumstances and trades than in others?
- Do you feel pressure to comply with the mandatory rules and regulations?
- Why do you think informal activity continues?
- Do you think it is possible to make all businesses comply 100% with mandatory business and tax laws?
- Are there any factors that help to make not complying easier or necessary?
- Any further comments on the subject?

Appendix B - Researcher Identity Memo

There are many areas of personal and professional interest which have motivated this study. I am writing this memo as part of an ongoing reflexive process to begin to understand how my personal experiences could impact this study. This process will enable me to better understand my position by examining my goals, assumptions and feelings. By doing this, I aim to become more aware of any emotional attachment and baggage I bring. This process will enable me to understand and capitalise on the potential advantages of this background, and to also understand the disadvantages my background brings. Understanding how my background can create disadvantages will allow me to better consider how to limit the effect of my prior experiences and maintain integrity during the research.

Firstly, I have over twenty years of practical experience of owning and working in small businesses before beginning my academic career around five years ago. My personal and professional background is largely embedded in car and fashion industries where I feel informal activity is generally accepted as being a normal part of running a business for some actors. More specifically, my background is embedded in the sales, marketing and management activities of these industries. As a result of this prior experience, my personal and professional connections are mainly small business owners who still regularly discuss their business activities with me.

As a result of my background, I have a strong connection to a small business community within the East Midlands area of England, where this study is based. I also have first-hand practical experience of running formally registered small businesses and dealing with the daily complexities of formal regulations. This background may be considered as a weakness of this study in some circles and may

even disqualify me from conduct this research. This background could lead me to view things from the respondent's lens and unknowingly move beyond my intended position as a PhD researcher by becoming overly involved during data collection and analysis. This situation, if left unaddressed, may result in me *going native* as I become an academic spokesman for the actors. As a result of my background, I understand clear steps must be taken throughout this research to limit its effect on findings and to ensure scientific integrity is retained. I am aware that to do this, various tactics must be adopted to reduce the impact of my background on the study as I feel complete objectivity is unachievable.

I feel that there are two sides to this coin, and my background has potential benefits to this study. My background may allow me to better present and understand the motivations and rationales of those who adopt informal practices, while the methodological process will be there to ensure professional academic and scientific standards are maintained. I must be careful to not project my personal views and background onto this study and therefore, must remain mindful of the potential implications of my background on the data collection, analysis and conclusions. My personal background in the area of small business in England is both my biggest weakness and biggest strength.

While I have strong connections to small business owners in the East Midlands, I am also now connected to an academic community following a career change. By embarking on this academic career and participating in discussions with research communities and external experts, I believe have enhanced my ability to understand and separate myself from this study in a positive way. By writing this memo, I am

beginning to consider my own position and now have a better understanding of my motivation to conduct this research.

Returning to education as a mature student five years ago sparked the academic interest around areas of my practical experience. Initially, I wanted to focus on exploring academic understandings of entrepreneurship, small businesses development, idea generation and idea cultivation. However, by reading various academic articles, I have discovered literature around the informal economy and IEA. This led to both my professional and academic curiosity as I began to see where I could potentially begin to make a contribution to knowledge through PhD level study.

After beginning to read widely around the topic of the informal economy, I have begun to feel frustrated and evermore curious about the existing perception of small business owners who adopt informal practices. This frustration and curiosity have driven this research and helped maintain my motivation to complete the study. I can see that my intention is not to romanticise the field of study but to genuinely better understand the organizational behaviour of small business owners.

More specifically, my main intention for conducting this study is to better understand the motivations and rationales of businesses who adopt informal economic practices. Therefore, I feel that this research is conducted from a position of genuine curiosity to present a genuine account of why IEA can become the preferred choice of action. My professional background in this area will be beneficial as it will allow me to gain access to an often-hidden business populations who may feel more inclined to speak with someone they can personally identify with. My background will also allow me to handle the interview with greater sensitivity. Therefore, a brief and professional

outline of my background may be beneficial during these interviews. However, I need to consider how much information to share to not negatively influence the discussion.

Through this practice of reflection I am now more aware of how I may influence and possibly corrupt the data collection and analysis processes of this study. I will need to read widely around the various tactics I might be able to introduce in this study to limit and help monitor my reactions to ensure I am aware of times when these are problematic to the study.

This reflexive memo is aimed at positioning me within this study. Although this memo is intended to be personally beneficial, its inclusion in the appendix of this thesis is to demonstrate and communicate my background to readers. This reflexive process will allow a better understanding of the confessional approach to researcher reflexivity. This reflexive process is considered as a continual developmental journey which has been maintained throughout this study. Regular reflexive memos have allowed me to consider and continually monitor my position and personal feelings about the process and its findings.

Appendix C - Formal Consent Form

Research Participant Consent Form

Working Title of Research Project:

Informal Economic Activity in Small to Medium Service Sector Businesses

Name of Researcher: Danny Buckley

Please tick and initial

1. I confirm that I have read and understood the information sheet [date and version number] for the study above. I have had the opportunity to consider the information, ask questions and have had these answered satisfactorily. ☐
2. I agree to my data being anonymised and stored. I agree to it being shared in a relevant archive in this form. ☐
3. I understand that my participation is voluntary. I also understand I am free to withdraw at any time - without giving any reason and without there being any negative consequences. I can decline to answer any particular question, or questions. ☐
4. I agree that non identifiable quotes may be published in articles, used in conference presentations, or used for standard academic purposes such as assessment. ☐
5. I agree to the interview being digitally audio recorded ☐
6. I understand that the data collected during the study may be inspected by a supervisor from De Montfort University. I give permission for the supervisor to have access to my data. ☐

.....		
Print name of participant	Date	Signature
.....		
Print name of person taking consent	Date	Signature

Appendix D - Participation Information Letter

Dear Participant

You have been invited to take part in a research study. Before you decide whether to take part it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with friends and relatives if you wish to. Please ask if there is anything that is not clear or if you would like more information. Please take your time to decide whether you wish to take part or not. Thank you for reading this.

The aim of this research is to develop a more precise understanding of the motivation to adopt informal economic activities. Understanding more specifically how rules, regulations and social norms, values and beliefs influence and affect the day-to-day decisions of business owners in relation to informal economic activity. For the purpose of this interview informal economic activity is defined as:

Socially legitimate paid activity that is legal in all respects other than that it is not declared to, hidden from or unregistered with, the authorities for tax, social security and/or labour law purposes when it should be declared.

This research is being carried out as part of the requirement for a PhD degree by Daniel Buckley (email: danny.buckley@dmu.ac.uk) under the supervision of Dr Martin Beckinsale email: MBeckinsale@dmu.ac.uk, Dr Dyneshia Johnson email: dyneshia.johnson@dmu.ac.uk and Dr Ed Thompson email: ethompson@dmu.ac.uk. These supervisors will be pleased to discuss any concerns you may have about participation in this research.

Participation in this study is entirely voluntary. It will involve a one-to-one interview of approximately 30-90 minutes in length to take place by arrangement. The information gained from this interview will only be used for the above objectives and will not be used for any other purpose and will not be recorded in excess of what is required for the research. All information which is collected about you during the course of the research will be kept on a password protected storage device and treated as strictly confidential. You will be given a pseudonym (fictitious name) so that anonymity is preserved. This pseudonym will be used instead of your name throughout study. Any other identifiable information you may give will be removed and anonymized. There are no known or anticipated risks to you as a participant in this study.

The information you provide will directly inform academic and policy debates about informal economic activity. The findings from this study may be published in academic journals, books or used in conference proceedings. You are assured of the complete confidentiality of data gathered in this investigation.

It is up to you to decide whether or not to take part. If you do decide to take part, you will be asked to sign a consent form. You may decide not to answer any of the interview questions if you wish. You may also decide to withdraw from this study at any time by advising the researcher interviewing you or by emailing danny.buckley@dmu.ac.uk. If you notify me of your withdrawal, all identifiable data will be destroyed. As a participant in this study, you may request a copy of the findings from this research.

If you wish to complain or have any concerns about any aspect of the way you have been approached or treated during the course of this study, the normal University complaints mechanisms should be available to you. If you have a complaint regarding anything to do with this study, you can initially approach the lead investigator. If this achieves no satisfactory outcome, you should then contact the Administrator for the Faculty Research Ethics Committee, Research and Innovation Office, Faculty of Business and Law, De Montfort University, The Gateway, Leicester, LE1 9BH or BALResearchEthics@dmu.ac.uk. The interview data will be kept in accordance with De Montfort University policy for 5 years after a study has been completed in accordance with

The research has been reviewed and approved by De Montfort University Ethics Committee. The supervisors of this research will have access to the data collected in this study along with members of the faculty human research ethics committee if they need to check that the study has been conducted in accordance with its ethical approval. As you are sharing your details with DMU, we want you to know how we use your personal data and what your rights are. You can find this information at <http://www.dmu.ac.uk/policies/data-protection/data-protection.aspx>. If you have any questions regarding this study or would like additional information please ask the researcher before, during, or after the interview.

Yours sincerely

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Appendix E - Examples of Timeline Narratives

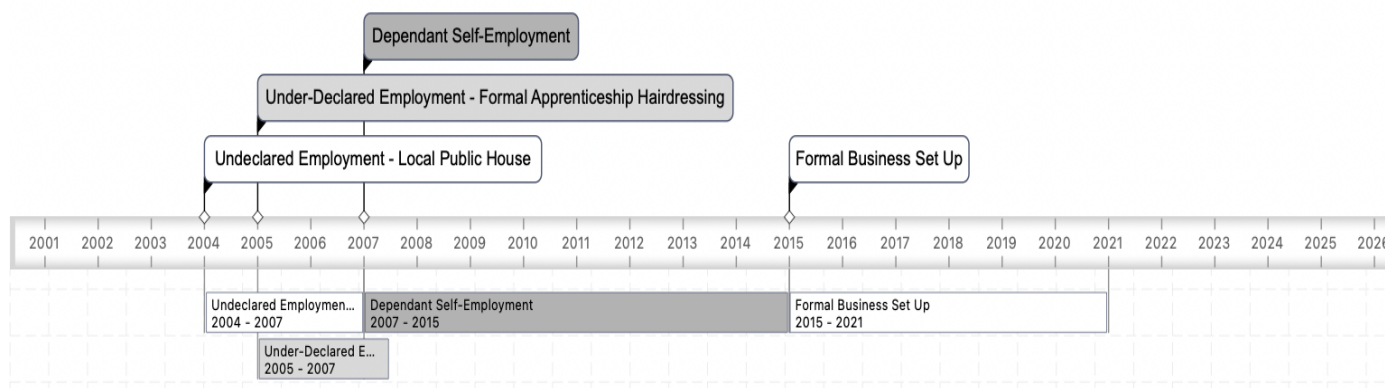


Figure E1 Abigail's Timeline 2004 - 2021 (Present Day)

Source: Author

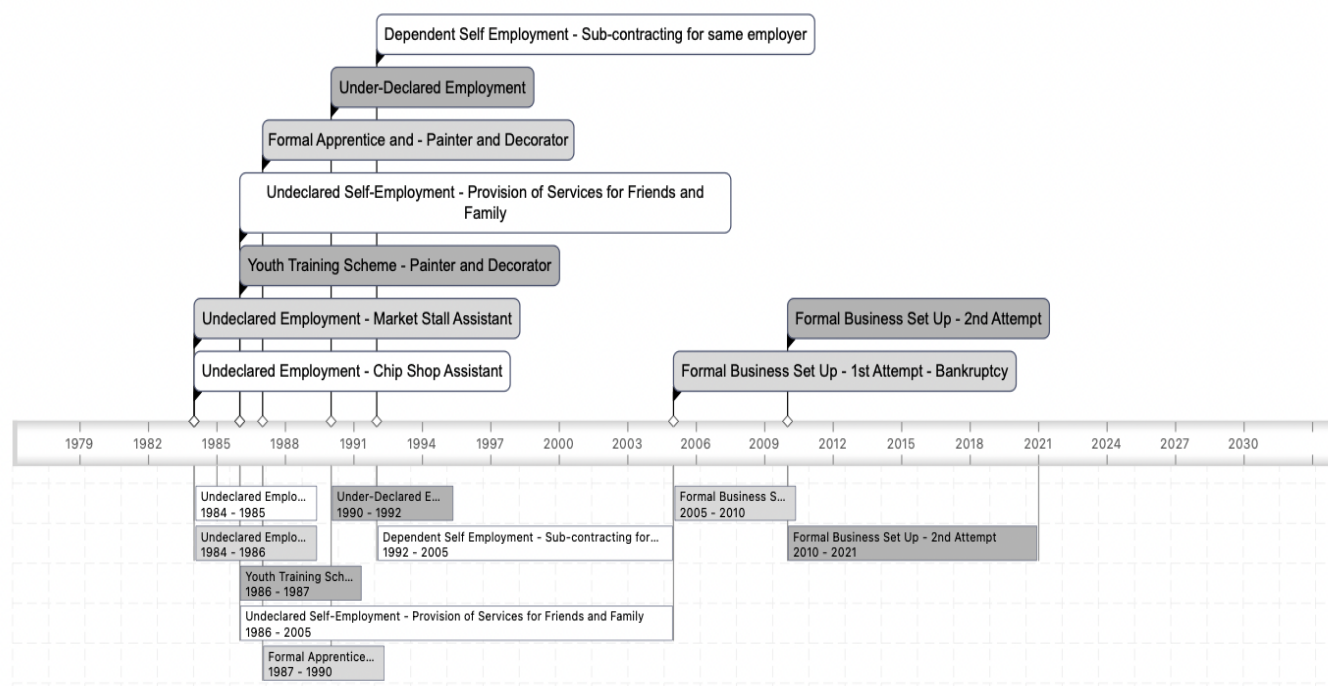


Figure E2 Henry's Timeline 1984 - 2021 (Present Day)

Source: Author