An Integrative Framework for Formal and Informal Entrepreneurship Research in Africa

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Abstract

It is a well-established practice of many Sub-Sahara African (SSA) governments to aid entrepreneurs within both the formal and informal sectors in order to enhance their performance and growth. Unfortunately, there is no agreed method by which governments can differentiate between entrepreneurs and target them with the appropriate promotion policies. Thus, despite the good intentions, entrepreneurship policy initiatives have been incorrectly targeted, poorly implemented and without the desired results, since different entrepreneurs may require different forms of assistance. Some scholars have suggested that without a context-specific classificatory guide, policymakers are unlikely to be accurate in their assessment of the growth capabilities of prospective candidates for specific promotion initiatives and this can explain some of the policy failures. This observation has motivated the present paper. Our objective is to provide a framework that helps identify the different contextual dimensions influencing formal and informal enterprise creation processes in SSA.

Keywords: entrepreneurship; formal; informal; Africa

Introduction

The view that private enterprise creation in Africa provides greater promise for inclusive and sustainable economic growth is gaining popular endorsement among development economists. The emerging perspective is that the formation of such businesses strengthens individuals' capacity to care for themselves and their families, while generating revenues necessary for anti-poverty policies of governments (Nafukho & Helen Muyia, 2010) and also contribute to sustainable development (Apostolopoulos et al., 2018). Some studies have also suggested that there are strong associations between national levels of entrepreneurial activity and the levels of economic growth in countries (Almodóvar-González, Frenández-Portillo & Diaz-Casero, 2020; Global Entrepreneurship Monitor [GEM], 2020; Kritikos, 2015; Carree, van Stel, Thurik, & Wennekers, 2002)[1]. Consequently, African governments and policymakers have been encouraged to promote policies aimed at creating conducive conditions for broadening their entrepreneurial supply base and ensuring the emergence and continuous flow of entrepreneurs in their economies (McDade & Spring, 2005).

Some prior research has suggested that the classification of entrepreneurial ventures into formal and informal categories provides a useful framework for development policy choices (Ligthelm, 2013). Other scholars dispute the usefulness of this classificatory framework, arguing that there is no uniform agreement on the conceptualization of informality and its consequences for enterprise growth and government revenue generation (Mbaye et al. 2020). Most often, small formal sector businesses coexist with lager informal sector businesses that satisfy most of the criteria for formality. Furthermore, while the smaller formal sector businesses tend to generate tax revenues, the relatively large informal sector firms pay only presumptive taxes. The co-presence of small and large firms in both formal and informal sectors of African economies has motivated some entrepreneurship scholars to focus less on the formal-informal dichotomy and more on understanding factors influencing entrepreneurship and enterprise development in general highlighting *inter alia*, gender, resource and policy influences in their development. For example, Madichie (2009) reviewed the development of women entrepreneurship in Nigeria and noted their advancement in a wide variety of sectors in the country. In his study of entrepreneurial activities in Ghana, Kuada (2009) noted that female entrepreneurs tended to have

[1] Throughout the study, the term entrepreneurship is used to represent both formal and informal entrepreneurship. The term entrepreneur is also used to represent both formal and informal entrepreneurs.

more difficulties in accessing bank financing but they compensate for this by cultivating social relationships and using the social capital derived from them as a resource-leveraging mechanism. Edoho (2015) reviewed mainstream literature on entrepreneurship in Nigeria and concluded that public policies in other domains have been in conflict with policies to promote entrepreneurship, thereby negating the profit motive of entrepreneurship. Asongu and Odhiambo (2019) discussed the nexus between the ease of doing business and economic development in Africa with a focus on wealth creation and sharing; opportunities of employment; balanced regional and economic development; standards of living and exports. Though studies illuminate our understanding about ongoing entrepreneurship activities in Africa, they also suggest that enterprise development policies in most SSA countries tend to be generic and neither aligned neither to specific needs of entrepreneurs within both formal and informal sectors nor to their operational circumstances (Hansen et al, 2018; Edoho, 2015; Kuada, 2009). There have therefore been calls for research that can help SSA policymakers design enterprise development policies that address these weaknesses (Apostolopoulos et al., 2018). These observations have motivated the present paper. Its objective is to provide an overarching framework that clarifies the complementarities between formal and informal sector enterprises and identify the key factors influencing their creation, paying particular attention to the contexts within which these enterprises operate.

Furthermore, it has been observed that most prior entrepreneurship studies in Africa have focused on country-specific cases, *inter alia*: Cameroon (Sigué & Biboum, 2020; Okah-Efogo, & Timba, 2015); Ghana (Afutu-Kotey, 2017; Kuada, 2009); Niger (Otoo *et al*., 2012) and Tanzania (Hansen et al., 2018; Rutashobya *et al*., 2009) and Nigeria (Madichie, 2009). The integrated framework proposed in the present study therefore goes beyond the country focus as well as the formal-informal dichotomy, and provides a more general basis from which future entrepreneurship research in Africa can be conducted. In terms of ambition, this study is similar to Asongu and Odhiambo (2019), which has provided a systematic review of challenges to doing business in Africa.

In the next section, we gauge the relationship between entrepreneurship and economic development. This provides an understanding about the types of entrepreneurs generally referred to in the entrepreneurship landscape. Following a contextual view in which entrepreneurship occurs, we turn to the different types of contexts affecting entrepreneurial activities. Based on the afore-mentioned, we develop an integrative framework that may guide the formal-informal debate and entrepreneurship research in general. We lay out a research agenda and conclude by highlighting the relevance of the framework for future research.

Entrepreneurship and Economic Development

The relationship between entrepreneurship and economic development can be discussed in six main strands, namely: wealth creation and sharing; the creation of jobs; balanced regional and economic developments; Gross Domestic Product (GDP) and GDP per capita; standards of living and exports (Brixiová, Ncube, & Bicaba, 2015; Asongu, 2013). The points are substantiated in chronological order.

First, within the framework of wealth creation and sharing, entrepreneurs attract capital from various stakeholders (e.g. investors, the public and banks) in addition to their own resources to establish businesses. Through this process of capital mobilization, the entrepreneur involves various stakeholders in the creation and distribution of wealth for economic development. This perspective is consistent with the literature on institutions governing entrepreneurship (George, Rao-Nicholson, Corbishley, & Bansal, 2015), especially favourable political and economic institutions and financial access establishments (Im & Sun, 2015).

Second, entrepreneurship is fundamental in the creation of jobs in formal and informal sectors of the economy, both directly and indirectly – i.e. by being self-employed and by providing employment to other jobseekers. Employment contributes to economic development as those employed are consumers and taxpayers (see Brixiová et al., 2015).

Third, the process of setting-up a business can contribute towards balanced regional development if entrepreneurs locate their businesses in less developed areas of their countries. Associated development externalities to the business location decisions include employment opportunities, enhancement of transport facilities (airports, rail links and roads) and improvement of other public and private services, such as hospitals, schools, water supply and stable electricity. Economic development is thus associated with community development. Therefore, entrepreneurship should drive some features that are essential for community development such as training and education, healthcare and other public commodities. Works by Bürcher (2017), Qian and Jung (2017) support these insights.

Fourth, in addition to wealth creation and sharing discussed in the first strand, entrepreneurship is also a measure of economic prosperity such as GDP and GDP per capita that are directly linked to economic development. For instance, an established business entity uses resources like capital, land and labour to add value to commodities, which increase national product, national income and per capita income. These associated advantages derived from entrepreneurship are consistent with recent entrepreneurship and knowledge economy literature (Tchamyou, 2017; Asongu & Tchamyou, 2016).

Fifth, since a measure of economic development is increase in the living standards of citizens in a country, entrepreneurs contribute towards improving living standards beyond the pioneering and tailoring of innovations that improve the overall quality of life of customers, employees and other community stakeholders. Contemporary examples include smart cities and environmentally-friendly commodities. This perspective on living standard accords with recent literature on the relevance of entrepreneurship for poverty alleviation (Bruton, Ahlstrom, & Si, 2015; Si et al., 2015) and the provision of social amenities (Alvarez, Barney, & Newman, 2015).

Sixth, an export-led economic development strategy is facilitated by domestic entrepreneurs that are competitive enough to use cutting-edge technologies and access foreign and bigger markets. The corresponding foreign reserves from export surplus are used as cushion in stabilising the economy. Such stabilisation is an essential condition for maintaining current levels of investments as well as attracting future investments because investors and entrepreneurs have been documented to prefer economic environments that are characterised by less ambiguity.

In sum, entrepreneurship can spark and promote economic development by creating jobs, starting new businesses as well as contributing to a multitude of development objectives such as enhancement of exports, increase of GDP, promotion of skills and knowledge economy.

Types of entrepreneurs and their Contribution to Economic Development

We have earlier argued that policymakers must differentiate between entrepreneurs and target them with appropriate policies. The literature provides examples of useful classificatory models, especially in developed countries. For example, Smith (1967) identified two ideal types of entrepreneurs – the craftsman and the opportunist. The craftsman usually focuses on the present and the past, possesses technical education, and has low levels of confidence and flexibility. The opportunistic entrepreneur has advanced education and is mindful of the society. He is also highly flexible and has a futuristic orientation. Similarly, Stanworth and Curran (1976) identified three types of entrepreneurs - the artisan, the classical entrepreneur and the manager. While the artisan predominantly seeks to satisfy intrinsic desires (independence, control and personalized quality provision), the classical entrepreneur predominantly pays attention to profit maximization. The manager predominantly seeks to be recognised for his/her managerial excellence, specifically from business peers both within and outside the firm he/she manages. Also, Landau (1982) listed four types of entrepreneur – the consolidator whose business combines low innovation effort with low level of risk; the gambler who combines low degree of innovation with high level of risk; the dreamer whose business is characterised by a high level of innovativeness and low level of risk; the true entrepreneur who is able to combine high level of innovation with high level of risk. Based on a Schumpeterian view of entrepreneurship, Carland et al., (1984) conceptually differentiated between the small business owner and the entrepreneur. The former is an individual whose motive is to establish and manage a business to pursue personal goals not related to profit and growth. The latter is an individual who has profit and growth intentions of the venture he/she establishes and manages. Finally, Gartner et al. (1989) offered the following eight ways in which new business ventures are formed by the entrepreneur – (1) escaping to something new; (2) putting the deal together; (3) roll-over skills/contacts; (4) purchasing a firm; (5) leveraging expertise; (6) aggressive service; (7) pursuing a unique idea; and (8) methodical organising.

While the studies illuminate our understanding of who the entrepreneur is, they do not necessarily reveal the nuanced contexts from which these entrepreneurs emerge. To an extent, the theorized entrepreneurs are products of Western economies highly characterised by formal entrepreneurship with high opportunity creation ambitions. Missing in these discussions is the manner in which informal entrepreneurs emerge in a society.

Turning to the African context, some studies have suggested that the social, economic and political contexts within which individuals live influence their entrepreneurial drives (Kuada, 2015). It has also been argued that some individuals in emerging market economies are forced into entrepreneurship not by choice but by necessity (García-Cabrera & Gracia Garcia-Soto, 2008; Fitch & Myers, 2000). Thus, studies that are concerned with the process of enterprise creation must not rely exclusively on the opportunity creation perspective. This awareness provides a justification for the argument that entrepreneurial activities in emerging market economies can be aptly described as either necessity or opportunity-driven. This dichotomy has been popularized by the Global Entrepreneurship Monitor (GEM), which seeks to inform global entrepreneurship attitudes and activities.

Necessity-driven entrepreneurs

The mainstream entrepreneurship literature describes those who run their businesses as "survival workshops" as necessity entrepreneurs. A necessity-driven entrepreneur is borne out of push factors such as joblessness created by market inefficiencies (Landau & Gindrey, 2008; Fitch & Myers, 2000). Due to many resource constraints, the necessity-driven enterprises are usually small (i.e., micro enterprises that provide marginal employment for a single individual) and largely end up operating outside economic mainstream, i.e. the informal sector. Hence, they are frequently referred to as informal entrepreneurs (Williams & Youssef, 2015; Gurtoo & Williams, 2009).[2]

From a Schumpeterian viewpoint, creativity or innovativeness among such entrepreneurs is low. The Schumpeterian entrepreneur is one who creatively destroys (existing) resources to bring out

[2]Informal sector is a term generally used to describe micro enterprises such as hairdressing, commercial transportation, auto repairing, furniture production and retailing of food, clothing, medicines. Businesses in this group are usually unregistered and therefore unregulated (see Urban, Robert, and Gordon, 2011).

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a new product or process of production. Previous studies have shown that most necessity-driven enterprises end up as perpetually "no-growth" businesses (see McCormick, Kinyanjui, & Ongile, 1997). Their owners have low levels of expectations and ambitions and are therefore inattentive to opportunities for growth.

Though premised on survival strategies, authors have argued that necessity-driven entrepreneurs or informal entrepreneurs are not always pushed by disadvantaged circumstances to start a business. They also do so by choice (Williams, 2007) to sometimes circumvent long bureaucracy in the formal sector (De Soto, 1989). A research by Gurtoo and Williams (2009) showed that out of 1700 workers interviewed over a period of seven years in India, 49% of the sample were in the informal sector on their own account. Another empirical study by Williams and Youssef (2013) revealed that for over 50,000 informal entrepreneurs interviewed in Brazil, less than half started a necessity-driven enterprise. However, growth expectations or potential are at best low for necessity-driven entrepreneurs due to obstacles manifested in weak demand, lack of suitable secure premises (McCormick et al., 1997) and inability to easily access finance (Wang, 2016). Nevertheless, they prefer to operate within the confines of stability to avoid formal ways of business conduct that requires registration with the State.

Leaning on these observations, it can be argued that there are different types of necessity-driven entrepreneurs – some driven by economic survival motives while others are driven by intrinsic goals such as independence, personal freedom or flexibility in balancing their business and domestic lives.

Opportunity-driven entrepreneurs

As noted earlier, opportunity-driven entrepreneurs are those who identify hitherto unexploited opportunities and start a business based on it. Thus, they are not pushed by disadvantaged circumstances such as economic downturn, but pulled by their quest to employ themselves and others, gratify prestige (Baumol, 1990) or exercise a skill (Baumol & Strom, 2007). They exhibit high forms of creativity, aggressiveness and are willing to take risks especially when they find themselves in cultures that foster entrepreneurial action (Lundvall & Johnson, 2006). Nevertheless, they are relatively few compared to necessity-driven entrepreneurs. A GEM study of entrepreneurs from 64 economies showed that there were more opportunity-driven entrepreneurs in efficiency-driven countries (71%) and innovation-driven countries (79%) than there were in factor-driven economies (GEM, 2016/17). The import of the study is that high-income countries (innovation-driven) have structurally transformed economies that have surpassed the industrialization threshold of development. They have strong national social support systems that cushion the unemployed. Deductively entrepreneurial action emerging from these countries are more likely to be opportunity-driven than necessity-driven. This does not rule out necessity-driven entrepreneurship in high-income countries, for Fitch and Myers (2000) have provided evidence of necessity-driven entrepreneurs among minority groups in the United States. This has been corroborated by Williams' (2007) study in England.

We argued earlier that opportunity-driven entrepreneurs are also growth-oriented. Following Gutterman (2016), growth-oriented entrepreneurs are characterized by following a dream; taking advantage of a market opportunity; getting autonomy over the entrepreneur's time; and "making a lot of money". These entrepreneurs are cognitively and behaviourally less concerned with resources in the pursuit of their entrepreneurial ambitions. They combine a strong desire for growth with the potential capacity to realise it. Thus, Stevenson and Jarillo (1990) argued that growth-oriented entrepreneurs focus on opportunities within the market without regard to resources they currently control. Similarly, Chen and Yang (2009, p.400) showed that growth-oriented entrepreneurs in Taiwan "creatively use the least resources at each stage of venture growth".

Turning to Africa, McDade and Spring (2005) argue that a 'new generation' entrepreneurs are emerging in several African countries. They describe this new group of entrepreneurs as business globalists who organized a system of business enterprise networks consisting of national, regional, and pan-African organizations.[3] They are characterized by high degrees of interaction

[3] The formation of African enterprise networks began in 1993 with the formation of the West African Enterprise Network (WAEN), followed in 1998 by the East African Enterprise Network (EAEN) and Southern African Enterprise Network (SAEN). Each regional network is comprised of national networks. WAEN consists of national networks from 13 countries in West Africa, EAEN has seven in East Africa, and SAEN has 12 in southern Africa. A regional enterprise network was not established in Central Africa because of the ongoing conflict in the Democratic Republic of the Congo. In 2000, the pan-African Enterprise Network (AEN) was formed.

within social and business relationships, as well as "the use of modern management methods and information technology, trust among fellow members, transparent business practices, advocacy on behalf of the private sector, and commitment to increasing intra-African commerce" (ibid, p.17). Their networks seek to improve the climate for private sector business in Africa and to promote regional economic integration.

Beyond the category of necessity and opportunity-driven entrepreneurs

We have also noted that firms operating within the informal sectors in Africa may be both small and large. This implies that earlier assumptions that informal entrepreneurs are always necessity-driven (Ligthelm, 2013) appear no longer valid seen in terms of contemporary African entrepreneurial landscape. The formal-informal classification therefore provides a static perspective on entrepreneurship. Entrepreneurs adapt to changes, whether they operate in the formal or informal sector. They may graduate from being necessity-driven to opportunity-driven entrepreneurs. Taking a cue from Landau's (1982) types of entrepreneurs described earlier, necessity-driven entrepreneurs who exhibit low levels of innovation and risk, may gain experience and business knowledge and begin to venture into innovation-driven activities. Others may take high levels of risk even if their venture is less driven by innovation. An empirical study by William (2008) in three countries (England, Russia and Ukraine) found that after some years of establishment, informal entrepreneurs could graduate from necessity to opportunity-driven entrepreneurship. A study by Boafo and Dornberger (forthcoming) also found that some informal cross border businesses export within the first three years of existence. Even if these businesses are informal, the entrepreneurs are aware of the considerable amount of risk they venture into before and during exports. The empirical instances illustrate that the entrepreneurship motive and practice may oscillate at different points in the pendulum of necessity and opportunity-driven category. At the same time, context places a key role in shaping the entrepreneurship practice. However, the role of context and entrepreneurial learning in the transformational processes within the formal-informal divide has hitherto received limited attention in African entrepreneurship discourses (Mbaye *et al.* 2020). This awareness provides additional justification for the present paper, which positions formal and informal entrepreneurship discussions within the specifics of African economic and socio-cultural contexts. We argue that any useful classificatory framework of African entrepreneurs should be contextually grounded.

Contexts of Entrepreneurial Activities

We have earlier indicated that context is important to understanding the growth trajectories of businesses (see Hansen *et al.* 2018). Previous scholars have defined context in terms of resources (amount and types), actors competing for resources, the activities, aims and requirements of firms and institutions (Schoonhoven, Eisenhardt, & Lyman, 1990). For other authors, context is a composition of major factors, such as the "regulatory environment, culture and norms, prior knowledge, market incentives and networks" (Cuero Acosta, Adu-Gyamfi, Nabi, & Dornberger, 2017, p.17). GEM sees context in terms of framework conditions that affect entrepreneurial attitudes and activities. They include twelve environmental features: entrepreneurial finance, government policies and support and relevance; government policies regarding taxes and bureaucracy; government entrepreneurship programmes, entrepreneurship education at school stage; entrepreneurship at post school stage and entrepreneurship training; research and development (R&D) transfer; commercial and legal infrastructure; internal market dynamics; internal market burdens and entry regulation; physical infrastructure; cultural and social norms (GEM, 2017/18). Context can also be likened to Spigel's (2020) three attributes of the entrepreneurial ecosystem namely social, cultural and material or to Stam and Van de Ven's (2021) elements of the entrepreneurial ecosystem – the institutional arrangements and resource endowments that combine to make productive entrepreneurship. Based on existing works, Welter (2011) identified four omnibus types of dimensions of context - business, spatial, social and institutional context. For Zahra and Wright (2011), contextual dimensions include spatial, temporal, social and institutional. Based on prior research on the impact of context on business development (see Schoonhoven, Eisenhardt, & Lyman, 1990), we consider the following contextual variables as important for the development of small enterprises in SSA: the macroeconomic, the spatial, temporal, business, social, and institutional contexts.

Macro-economic context

We define the macro-economic context as one that shapes the general economic outlook of a country. According to Naudé (2010), entrepreneurship is highly associated with economic development. In effect, the macroeconomic context also affects the development of entrepreneurship. The relationship between entrepreneurship and changes in the macroeconomic environment is bidirectional (Thurik et al, 2008). On the one hand, the characteristics of the macroeconomic environment may influence the rate and type of enterprise formation in a given country. On the other hand, formal and informal entrepreneurs can have a positive impact on the macroeconomic context through job creation, direction of resources to productive sectors and filling gaps that failed government policies have created (Edoho, 2015; Sheriff, & Muffatto, 2015).

Studies have shown that a macroeconomic factor such as employment determines the type of entrepreneurs that can be created. Where there is high unemployment, as is the case in Africa chances are that many informal entrepreneurs will emerge for survival reasons (Igudia, Ackrill, Coleman & Dobson, 2016). In a macroeconomic context where unemployment is low, we contend that the tendency for formal entrepreneurs with growth-orientation to emerge may be extremely high.

The macroeconomic and sectoral business climate in most SSA countries appears to have a wide range of constraining effects on enterprise development. For example, Asongu and Odhiambo (2019) identified five main categories of challenges in doing business in SSA – i.e. (i) issues related to the cost of starting a business and doing business; (ii) shortage of energy and electricity; (iii) lack of access to finance; and (v) high taxes and low cross-border trade. We contend that the presence of these challenges has the likelihood to catalyze the creation of informal entrepreneurs. Non-transparent regulatory environment with regards to labour market rules, taxation, red tape procedures, property rights and bankruptcy laws, have also been listed among macro environmental factors that impinge on formal and informal enterprise development in SSA (Edoho, 2015).

Spatial context

Welter (2011) explains the spatial context as the geographic location in which an enterprise takes form. Examples of spatial considerations include new venture concentration, geographic movement of firms, people and the geographic points of entrepreneurial activities (Zahra &

Wright, 2011). A study by McCormick (1999) revealed that clothing (Eastland garment), metal products (Kamukunji), fish (Lake Victoria), vehicle repair clusters (Ziwani) in Kenya; vehicle and metal work clusters (Suame) in Ghana; and the clothing cluster (Western Cape garments) in South Africa provide the business owners in these clusters with locational identity and contribute immensely to their growth. There is some evidence suggesting that in such a spatial context, the individual may be replaced by a group for direct benefit with little interest in profit making which may give rise to social entrepreneurship (Rivera-Santos, Holt, Littlewood, & Kolk, 2015).

Previous studies have also shown that entrepreneurs' locational decisions are not always guided by rational considerations but rather by convenience and personal attachments (Dahl & Sorenson, 2009). Many tend to start their businesses in their "home" communities – i.e. places in which they have deep roots even when conditions that are more favourable exist elsewhere. This explains the formation of most non-farm entrepreneurial activities in the rural areas of Africa (Awumbila, 2014). In terms of growth potentials, previous studies have shown that most of the rural non-farm enterprises are most often necessity-based. That is, heads of rural households find themselves pushed to start these businesses due to such factors as surplus labour in the households and seasonality of farming activities (Babatunde & Qaim, 2010). Furthermore, locational characteristics such as agro-climatic conditions and distance from urban areas, ports and markets tend to determine the types and varieties of enterprises that are established in the rural areas (Reardon, Barrett, & Stamoulis, 2006). For example, the nearer a rural area is to an urban market the easier it is to establish enterprises that link rural and urban areas – e.g. small transport businesses and trading (Fafchamps & Shilpi, 2003).

Temporal context

The temporal dimension concerns with the emergence of a venture, change, sustainability of new firms over time and society or group perception of time in relation to resource allocation and the different aspects of the entrepreneurial process (Zahra & Wright, 2011). Experienced entrepreneurs are those who have identified and exploited (innovative) business opportunities over a long period of time. Thus their experience teaches a lot about success and failure, catalysing or constraining new opportunity identification and exploitation (Ucbasaran et al., 2009). Delmar and Shane (2004) found that new ventures that first legitimise activities (completing a business plan and establishing a legal entity) increase their chances for survival. But the findings by Delmar and Shane fit the domain of formal enterprise formation. The same however could not be said for informal enterprise formation.

In a study of time and national cultures, Usunier (1991) found that with the exception of Black Africans in Mauritania, individuals from other countries (e.g. Germany, France, South Korea) in the survey agreed to appointment making when in business. One can deduce from the study that highly advanced countries with strong industrial bases, exhibit strict observance of time in their business deals. This appears not to be the case in Africa. These variations have consequences for resource allocation specifically with enterprise formation.

Business context

There are broad and specific categories in which the research reveals the business context. Broad categories included the industry and market. Specific examples include the stage of industry and market life-cycles, number and nature of competitors (Welter, 2011). The question by Rumelt (1991) that "how much does industry matter?" is useful to consider when placed in the context of entrepreneurial activities. Studies have shown that enterprise formation is largely influenced by the characteristics of the industry. Spigel (2020) highlights that it is possible for a region to predominantly direct resources to its most successful industry. In effect, it may be hard to launch a new business outside this industry. Drawing from Siegfried and Evans' (1994) industry entry barriers and entry inducements, Dean, Brown, and Bamford (1998) empirically investigated enterprise formation based on the following entry barriers (sunk costs, industry concentration, vertical integration, excess capacity) and entry inducements (industry profitability, industry growth rate, niche dynamism, technological development and production differentiation). They found that these factors either served as entry barriers or inducements for small and large enterprise formation. Other studies have shown that a quick, efficient, and cost-effective business registration process enhance formal enterprise formation and registration (Klapper, Lewin, & Quesada Delgado, 2009). Similarly a business environment that has long bureaucracy may entice bribery and corruption for entrepreneurs with start-up intentions (Smallbone, Welter, Voytovich, & Egorov, 2010). Given the case, entrepreneurs may use the informal sector where the business formal business environment has little influence on start-up (See McDade & Spring, 2005).

Social context

Granovetter (1985) reminds us that an economy is structurally embedded in social networks that affect its functioning. To him, relational constituents such as social and emotional attachments, information flows and general inter-personal processes contribute immensely to explaining the growth potentials of economic systems and entrepreneurial activities in different societies. These relationships provide a sense of obligations based on feelings of gratitude, respect and friendship, and their economic benefits include willingness of business partners to engage in joint resource creation and ability to leverage external resources by the aid of referrals, and lower costs of transactions due to lower monitoring costs. Thus the social context covers the relationships between various actors (such as inventors, incumbents, new firms, and other stakeholders) that influence the life cycle of the firm (Zahra & Wright, 2011). The literature also reveals that networks are relationships embedded in the social context. Through interpersonal, family and household relationships, actors gain access to a pool of resources that are possessed by other actors (Welter, 2011).

Previous studies on Africa showed the influence of interpersonal and family ties on entrepreneurship. For instance, McCormick et al. (1997) demonstrated that initial capital for micro enterprise start-up in custom tailors in Nairobi, Kenya sometimes combine savings with cash and gifts from spouses or other family members. While interpersonal and family ties may be useful, other studies show that they could simultaneously be a hindrance to enterprise formation or expansion. For instance authors have found that some entrepreneurs in Ghana establish businesses far away from their hometown to avoid family financial demands that stifle enterprise formation (Robson; Haugh, & Obeng, 2009). Thus, family ties (social networks) may serve as both an asset and liability for enterprise formation. Work by Babatunde and Qaim (2009) in Nigeria informed that networks are not limited to the social. In their work they found that there are business owners who use political networks as form of opportunity exploitation. Following Zahra and Wright (2011), there are different types of networks in the social context which affect enterprise formation.

Institutional context

Scholars contend that an institutional context explains differences in enterprise formation and the changes in entrepreneurial activities (Zahra & Wright, 2011). Thus this context helps to explain "the birth rate, magnitude, and types of opportunities" and entrepreneurs' mode of exploitation for profit (Zahra & Wright, 2011; p.76). Previous studies have shown that factors such as government regulations, availability of necessary resources, and public policies tend to influence an entrepreneur's decision and ability to exploit opportunities (Stam & Van de Ven, 2020; Cuero Acosta et al., 2017; Eckhardt & Ciuchta, 2008). These factors form part of what is generally termed the institutional context of business operations. The general understanding is that entrepreneurs require conditions that provide an opportune environment for their creativity to flourish and their business models to work effectively. For example, the regulatory systems in a country may promote or hinder entrepreneurship by shaping the level of risk involved in the formation and start of a business (Stenholm, Acs, & Wuebker, 2013). They also influence the level of access to resources required to create new businesses.

Previous empirical studies have documented institutional influences on enterprise development in Africa. For example, Onyeje, Court and Agbaeze (2020) found that legal regulatory policy contributes most effectively to sustainability of MSMEs in North Central, Nigeria. Conversely, the authors also found that some requirements in SME policies such as capital stock serve as a barrier to the growth of SMEs. Some studies also demonstrate that the infrastructural policy contribute less to the sustainability of MSMEs (Onyeje, Court & Agbaeze, 2020). In another empirical evidence, Abor (2007) found that debt policies such as long-term and total debt ratios negatively affect the performance of SMEs. Though these studies show the negative effects of policy on SME growth, the dearth of understanding on the different types of entrepreneurs to trigger policy support may exacerbate the unsatisfactory performance of some SMEs.

In sum, the available evidence suggests that although there have been many well-intended policy frameworks at the continental, regional or national levels they do not adequately align with the motives of the different types of entrepreneurs that may be operating within a particular context.

While the regulatory system of a country or locality exerts a formal influence on business creation, a normative dimension (Scott, 2014) of the institutional context has the potential to shape entrepreneurship of the country in question. Stated differently, the institutional context is also composed of informal mechanisms such as “sanctions, taboos, customs, traditions, and codes of conduct” (North, 1991: p.97) enabling and constraining entrepreneurship.

Complementarities between the Contextual Variables

Depending on the strength of the relationship between the contextual variables, a conducive or hindering environment may cause different types of entrepreneurs to emerge. For instance, institutional contexts characterized by heavy tax burdens and administrative bureaucracy may bolster the importance of informal networks in facilitating the creation of informal sector enterprises that circumvent administrative bureaucracy. Even a strong institutional context with the right mix of incentives may not bring about innovative entrepreneurs if the business context does not encourage opportunity identification for innovative solution for viable business ventures (Kuada & Mangori, 2021). Essentially, when the temporal context – the rate of emergence of new and innovative entrepreneurs – is aided by the spatial context – entrepreneurship-supporting location for business, this can influence the institutional context to provide regulatory incentives to facilitate new entrepreneurs in particular locations. Ultimately, these may affect the macroeconomic context by creating employment for the country. Thus, the relationship between the contextual variables certainly influences the type of entrepreneur being created or the quality of entrepreneurship (Chowdhury, Acs & Belitski, 2019).

At the same time, the type of entrepreneur created or the business sustained may also influence the context. Evidence shows that the success of the Suame industrial cluster in Ghana and the Otigba computer village in Nigeria (Boafo & Dornberger, forthcoming; Ogunjemilua, Oluwale, Jegede & Ajao, 2020) makes them the preferred spatial context for services relating to metal technology and information and communication technology in West Africa, respectively. Despite being highly informal clusters with operations partly extending beyond national borders (Boafo & Dornbeger, forthcoming), they influence both the formal and informal institutional context in which they operate.

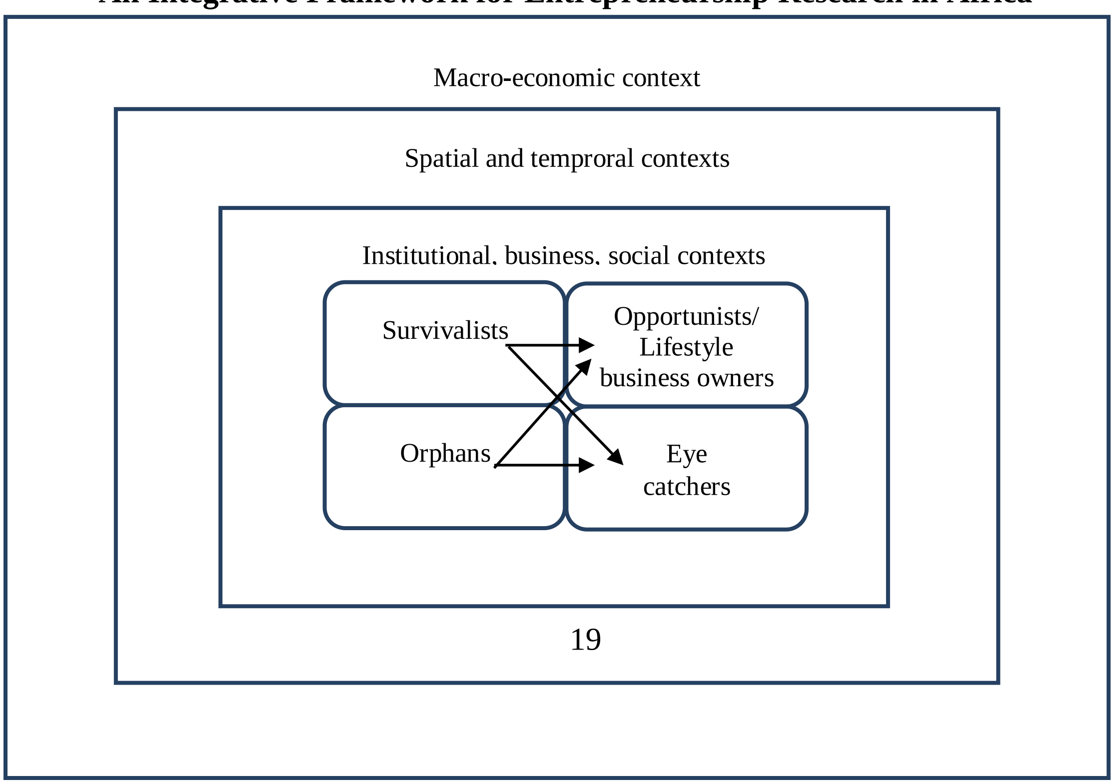
An Integrated Framework

We have argued earlier that without a context-specific classificatory guide, policymakers are unlikely to be accurate in their assessment of the growth capabilities of prospective candidates for specific promotion initiatives and this can explain some of the policy failures (Gartner, Mitchell, & Vesper, 1989; Landau, 1982). The discussions above support the view that an appropriate classificatory framework should be anchored on three pillars: (1) motives that undergird enterprise formation decisions, (2) innovation orientation of entrepreneurs, and (3) the operational contexts of the enterprises.

A review by Shane (1997) showed substantial entrepreneurship research within advanced economy contexts. However, few scholars have offered useful classifications of African entrepreneurs. One of such classifications has been proposed by Kuada (2015) as a 2x2 framework based on creativity and motive. Four types of entrepreneurs are enlisted in the framework – survivalists, orphans, opportunists and lifestyle business owners, eye catchers. Survivalists are those known in the literature as necessity-driven entrepreneurs. Orphans are also necessity-driven entrepreneurs who have real entrepreneurial intentions. They show promise by exhibiting marginal but significant innovations, nevertheless, they are resource constrained and/or unaware of available business support to unleash their creativity. Opportunists or lifestyle business owners leverage their position in political and social networks to take advantage of opportunities that present themselves while in these networks. They do not only identify opportunities in their networks, they also possess capabilities that enable them to exploit the entrepreneurial opportunities they see. However firm growth is not a key concern due to the lifestyle they enjoy. Thus, opportunists and lifestyle business owners prefer to keep a status that allows them to keep their businesses below growth potentials. Eye-catchers have entrepreneurial intentions of growing their business and making profit. As the name speaks for itself, eye-catchers may initially be unknown and therefore support from their operational environments may at best be limited. They operate in high-entry barriers and possess phenomenal capabilities that are used for profitability in the future when business is set in motion.

Kuada's (2015) classificatory framework, in addition to other described types of entrepreneurs described in the paper, offer insights into understanding the behaviour and motive of the entrepreneur. It places the entrepreneur in a social context but does not extend to different contextual dimensions discussed in this paper. Entrepreneurship scholars have opined the need for multi-level research about entrepreneurship (Low and Macmillan, 1988). In line with this, the integrated framework in the current paper combines entrepreneurial behaviour and motive with the contextual dimensions discussed in the preceding sections of the paper. It points out that, aided by context and policy, informal entrepreneurs (survivalists or orphans) may graduate their business into the mainstream economy and become lifestyle owners or innovators. On the one hand, it may help to understand whether informal entrepreneurs choose to remain where they are, given the entrepreneurship context and policy. On the other hand, it may help to understand whether the formal entrepreneur (e.g. lifestyle entrepreneur) prefers to remain as such or aim at innovation. One would expect the 'eye catcher' to be constantly seeking growth through innovation but in our view, this can be fully understood when entrepreneurship context and policy are supportive. Conversely, it is possible for the eye-catcher to roll back as a lifestyle entrepreneur, given the entrepreneurship context and policy framework within which they are embedded. In sum, this integrative framework outlines different potential trajectories for nascent formal and informal African entrepreneurs. It also suggests a more dynamic conceptualization of the formal-informal entrepreneurship discourse in which transitions from informal to formal (and reverse) is possible. We elaborate on these dynamics in the next section of the paper.

An Integrative Framework for Entrepreneurship Research in Africa



Source: Own construct

Research agenda and policy considerations

The integrative framework offers opportunities to further study entrepreneurship research on many fronts. In line with this, research that seeks to investigate how a particular entrepreneur recognises entrepreneurial opportunities and/or establishes an enterprise in combination with one or more contextual factors will show the complexity of entrepreneurship across differential and related contexts. Such research will aid policy makers in Africa to deploy resources that fit the behavioural characteristics of entrepreneurs and the multilevel contexts they operate.

Kuada (2015) elaborated that investigations into the types of entrepreneurs may produce other categories, which will enrich our views on entrepreneurial activities. The extant literature sees the presence of a significant number of survival entrepreneurs in a country as evidence of economic stagnation. The prevalent view is that this category of entrepreneurs sends out wrong signals about the potential returns on education – i.e. young people may perceive self-employment as the only option irrespective of their level of education, thus reducing their educational aspirations (African Economic Outlook, 2017; Thurik et al 2008). Our framework suggests that a dynamic operational context may well facilitate the evolution of one type of entrepreneur into the other, what we term as 'graduated entrepreneurship'. For instance, a survivalist entrepreneur may become a lifestyle business owner or an eye catcher, not only based on purely intrinsic capabilities or skills on the part of the entrepreneur but also due to the contextual dynamics in which they operate. These types of necessity-driven entrepreneurs may exhibit the quality of alertness and look out for any opportunity that allows them to satisfy basic needs. This way, he/she may act proactively in search of opportunities (Gërxhani, 2004).

Given a dynamic business context, the industry in which an entrepreneur starts a business may change when the institutional context favours or discriminates enterprise formation in a particular industry. For instance Asongu, Le Roux, and Biekpe (2018) have shown that in many parts of Africa, there is a huge potential for enterprise formation in the mobile phone industry. Nevertheless, this requires that entrepreneurs be introduced to new knowledge in order to match the institutional context related to the ease of doing business. Thus, research that investigates the relationship between various contexts and their influence on entrepreneurship in particular business sectors are welcome.

Entrepreneurship research in Africa which explicitly builds arguments within a temporal context is still woefully inadequate and at best few. Yet the history of Africa, which manifests a cocktail of developmental ideologies stand to provide enough resource to understand the evolution of entrepreneurship on the continent. In consonance with this, useful questions loom in the background. What similarities and differences exist between current entrepreneurs and those before the Cold War? Does the perception of time influence the type of entrepreneurs the continent, country, region or locality produces? Are there rich sources of experience to tap from African entrepreneurs who have conducted business over long periods of time? What led these entrepreneurs to succeed or fail? These and many other questions require empirical evidence when entrepreneurs and the temporal context are investigated. Such research will aid policy makers to make informed policies that embody history as an important resource in entrepreneurship development.

It has been mentioned earlier in the text, that some African entrepreneurs prefer to establish companies away from the hometown to avoid emotional stress from family members (Robson et al., 2009; Buame, 1996). Yet findings from Dahl and Sorenson (2009) showed that entrepreneurs in Denmark have a high propensity to establish companies close to family, friends and places of deep roots. While there are differences in the findings, we contend that context matters in understanding the growth potentials of such entrepreneurs as survivalists, orphans, lifestylists or eye catchers. Stated differently, does context produce a particular type of entrepreneurs? Such a research, we believe will guide policy makers in providing entrepreneurial support targeted at entrepreneurs in particular places.

Africa is huge and rich in diversity. Therefore, different countries exhibit different modes of entrepreneurship behaviour embedded in different contexts. Comparative research investigating similarities and differences in entrepreneurship across countries will offer robust generalization about entrepreneurship in Africa. This may prompt regional and continental institutions to rethink entrepreneurship support offered to various countries and the relevant focal points needed to avoid disjointed, ambiguous and unambitious support.

In terms of policy, this framework supports policies that create enabling environments for the emergence and growth of enterprises in all parts of a country in order to promote dispersed spatial distribution of growth-oriented enterprises. Such promotional initiatives are even more important in Africa where there are concerns about rapid rural-urban migration and its contribution to the incidence of poverty in the urban areas (Tacoli, McGranahan, & Satterthwaite, 2015). Therefore, the policy challenge is to create enabling environments for the emergence of growth-oriented entrepreneurs that can set positive and dynamic growth spiral in motion in the rural areas.

Future studies can build on the framework established in this research to assess how it withstands empirical scrutiny using both macroeconomic and microeconomic data. The empirical analysis should be tailored to distinguish between formal and informal entrepreneurs in the light of the narratives in the study. Hence, considering the proposed future studies using panel data (for broad policy implications) and country-specific data (for more targeted policy implications), are worthwhile to consider.

Conclusion

In this paper, our objective has been to provide an overarching framework that will aid formal and informal entrepreneurship research in Africa. This has been presented by creating an integrative framework that focuses of formal and informal entrepreneurship embedded in different contexts.

In concluding, we emphasize that entrepreneurship (formal and informal) immensely supports economies to develop and grow. This is even more needed in Africa, given that the continent is saddled with poverty. Therefore, entrepreneurship research is necessary to ultimately inform policy makers of coordinated entrepreneurship support. In line with this, we contribute to African entrepreneurship literature by providing a new integrative framework to enable us understand formal and informal entrepreneurship better on the continent. The present study does not intend to produce policy prescriptions. It rather seeks to guide future entrepreneurship research in Africa by highlighting the different routes of growth that different business owners may have. We argue against a straitjacket perception of the formal-informal dichotomy that is prevalent in contemporary entrepreneurship research. We are aware that the research agenda we propose are by no means exhaustive. We contend, however, that the framework will offer insights into entrepreneurship process and context. This will enrich theoretical, conceptual, methodological and policy perspectives that embody entrepreneurship research.

Furthermore, we believe that we have made our model open enough to allow future researchers to critically produce constructs and accompanying indicators that fit each context. In other words, each contextual dimension may entail detailed indicators carefully chosen for analytical rigour. Different contexts can be combined to study its relationship with a particular type of entrepreneur and their process of opportunity identification and exploitation.

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