ENTREPRENEURIAL EDUCATION: A PANACEA TO FORMALISATION OF THE INFORMAL SECTOR

MUPARANGI Simbarashe 1, MAKUDZA Forbes 2 and MAKANDWA Godfrey 3

1Manicaland State University of Applied Sciences; simba@staff.msusas.ac.zw; 0000-0002-0419-6245
2Manicaland State University of Applied Sciences; forbes.makudza@staff.msusas.ac.zw; 0000-0003-2559-5576
3Manicaland State University of Applied Sciences;hoffrey.makandwa@staff.msusas.ac.zw; 0000-0002-2480-9504

ABSTRACT: This paper sought to evaluate the influence of entrepreneurial education on informal entrepreneur’s intention to formalise. A positivist approach was employed backed by quantitative analysis to determine the impact of education on intention to formalise informal businesses. The study analysed a sample of 265 informal traders and a structured questionnaire was used to gather data. Collected data was analysed using parameters such as regression analysis and Pearson correlation analysis. The results indicate that the general level of education is not among enablers of formalisation. However entrepreneurial knowledge, entrepreneurial skills and entrepreneurial attitude were found to be positively correlated with intention to formalise businesses. The study recommends that more focus should be on entrepreneurial education rather than conventional education system so as to enable transition from informal to formal economy. The study therefore brings a new perspective on formalisation of the informal sector.

KEY WORDS: Entrepreneurial Education, Informal economy, Formalisation, Entrepreneurship

1. INTRODUCTION

It is expected that after establishment, the informal businesses must regularize their businesses so that they can contribute meaningfully to the economy (Muparangi & Makudza 2021). However, this has not been the case with many Zimbabwean entrepreneurs who have found sanctuary within the ‘grey’ economy. Years after establishment, the entrepreneurs are reluctant to formalize their businesses resulting in severe economic consequences for the economy. There is need for a fundamental rethinking of the informal sector and deepened understanding of its dimensions and dynamics.

The informal sector is giving policy makers torrid time as they fail to control its activities. The informal sector has made great strides in providing employment and reducing the impact of economic decay. IMF (2018) observed that the informal sector in Zimbabwe contributes 63% to the country’s GDP and it employs 71% of the country’s population. Njaya, (2015) also stated that there are 2.8 million informal SMEs employing about 2.9 million people thus resulting in informal sector dominance. Ndiweni, (2014) also reported that Zimbabwe’s economy is now dominated by the informal sector as indicated by high employment levels in the sector where about 5.7 million people are now depending on it.

However, despite its dominance, the informal sector has failed to propel Zimbabwe to sustainable economic growth (Muparangi & Makudza 2021). The Reserve Bank of Zimbabwe Monetary Policy, (2020) cited informal sector players as major culprits responsible for economic crisis. The debate on the evils of the informal sector has led to the inclination towards formalisation process. However, formalisation will always be difficult in the face of various barriers that include financial barriers, regulatory barriers, administration barriers among others.

The main theories of informal entrepreneurship such as the legalist theory, the structuralism theory and voluntarist theory concentrate mainly on government policies and issues of corporate governance as impediments to formalisation of the informal sector and issues such as education level, knowledge and skills have not been given much attention. The International Labour Organisation, (2014) cited administrative barriers, corruption, financial costs and regulatory barriers as the reasons why the informal sector has been stuck in the doldrums for decades. The omission of entrepreneurial characteristics as a barrier to formalisation is a cause for concern as these might have an impact on the ability to formalise. Education has been touted as one of the most significant factors which determine entrepreneurial success but its impact on formalisation is unknown. This study sought to unravel the influence of education on informal entrepreneur’s intention to formalise.

2. LITERATURE REVIEW

2.1. The informal sector

The definition of the term “informal sector” has been surrounded with controversy with different authors coming up with different perspectives of the definition. There seems to be terminological confusion surrounding the definition of the informal sector. Various words have been used by different authors to describe the informal sector and these are; underground (Maddah, 2014), hidden (Davies and & Thurlow, 2010), unobserved (CUTS, 2009), oxymoron (Aihie, 2009), unofficial and shadow economy (McGregor et al., 2011). The terminology of the informal sector covers all unregulated and unregistered business activities.

Sobhan and Madhar (2014) defines the informal sector as that part of the economy which is neither taxed nor monitored by any form of government policy. Consequently, activities of the informal sector are not included in the gross domestic product (GDP) and Gross National Product (GNP) of a country. Weng (2015) brought another view of the informal economy by adding illegal activities. According to Weng (2015) an informal economy refers to unregulated economic activities including legal and illegal economic activities such as drug dealing and smuggling. However, for the purpose of this study, the Weng (2015)’s definition does not hold water since the researcher focused on legal but unregulated business activities as
propounded by Sobhan and Madhar (2014). Thus, the study recognises the informal sector as those businesses not registered but doing legal business activities.

2.2. The informal sector in Zimbabwe

According to Musarurwa (2017), Zimbabwe’s informal sector is the 6th largest in the Sub Saharan region. This view is supported by Fin Scope’s (2012) study which values Zimbabwe’s informal sector at US$7 billion. Despite the rich informal sector, the economy’s budget averages USD 3.6 billion as at 2016 and this spell problem for the economy. In 2017, the Zimbabwe Revenue Authority (ZIMRA) gave small to medium enterprises an ultimatum to register or risk prosecution. Musarurwa (2017), claim that 9000 SMEs hide the directive and complied as at 30 June 2017.

This de-industrialization led to the rise of the informal sector in Zimbabwe as retrenched employees turn to backdoor projects for survival. Zimbabwe’s economy is now being dominated by informal business activities and this has resulted in government failing to raise enough revenue through taxes and other formal business activities. Fin Scope (2012)’s survey reported that the informal sector is home to 3.4 million businesses. The study further noted that 85% of these businesses were not registered, and the remaining 15% were only registered with local authorities and registrar of cooperatives. Ndiweni, (2014) further noted that 98% of SMEs in Zimbabwe are not registered with the government arm responsible for tax collections (ZIMRA) for tax purposes hence their contribution to economic growth is minimal. It is however almost impossible for the government to account for informal business activities given the prevailing economic conditions.

Fin Scope (2012) reviewed that about US$7 billion is circulating within the informal sector in Zimbabwe. However, the Reserve Bank of Zimbabwe (2016) disputed this claim, instead arguing that the country’s informal sector is worth US$3.5 billion only. The argument by the Reserve Bank does not hold water considering the fact that Zimbabwean’s main source of livelihood is now centered on the informal sector as formal jobs continue to dwindle.

Gorejena (2015) claims that the informal sector is keeping Zimbabwe’s economy afloat as it currently employs 90% of the population. However, this view was disputed by Shumba (2014) who argues that Zimbabwe’s informal sector is just an attempt by citizens to escape from the jaws of poverty caused by a faltering economy. According to Muparangi et al (2021), the growth of Zimbabwe’s informal sector is mainly attributed to lack of formal jobs due to rapid de-industrialization.

The Zimbabwean economy is currently, facing cash crisis which is now threatening to shut down the country. Musarurwa (2017), claims that the cash shortages are emanating from informal business activities and the parallel market. Furthermore, the RBZ monetary policy (2016) claimed that many informal traders are shunning the banking system thereby causing serious cash shortages. This view was also supported by Phiri (2017) who pointed out that the $300 million bond notes which were released into the market to ease cash shortages were now out of the formal banking system further worsening the cash crisis.

The informal sector also accused of externalising foreign currency through parallel structures. While RBZ (2016) statistics indicate that $1 billion of cash should be in circulation, less than 50% of that is circulating through formal channels and the remainder is in the shadow economy. In a nut shell the informal sector in Zimbabwe is the main source of problem for cash shortages, foreign currency externalization, poor fiscal performance and poor circulation of money (RBZ, 2016).

While the move by the government to use directives and the law to force informal business to formalize has failed to solve the informal sector matrix, there is need for research to uncover the various reasons why the informal sector is reluctant to formalize. Despite government relaxing formalisation requirements, Zimbabwe is still experiencing high levels of informal trading.

2.3. Formalisation of the informal sector

Formalization of the informal economy can take different forms: registration, taxation, organization and representation, legal and social protection, business incentives and support, and more (Muparang and Mukudza, 2020). Formalization also means different things to different categories of the informal workforce. However, this research uses company registration with the registrar of companies as meaning of formalisation in Zimbabwe’s context. Therefore, formalisation entails registering a business as either private limited company or public limited company. These forms of business contribute to the economy through decent jobs, revenues and organized business activities.

2.4. Impact of Entrepreneurship Knowledge on formalisation of informal sector

Entrepreneurial knowledge is defined as the outcome of education be it formal education or informal education. Entrepreneurial knowledge is an understanding of the way the world of work functions, economic literacy, knowledge of business organisation and processes (EU, 2012). Umihanic and Barucic (2016) claim that entrepreneurship knowledge enables entrepreneurs to interpret economic policies conduct registration and also draw documents which are needed by authorities. A study conducted in Marondera, Zimbabwe, by Bukalia and Hama (2012) discovered that informal business owners do not even know the importance of bookkeeping thus exposing knowledge gap within the informal sector. Bukalia and Hama (2012) further noted that about 80% of the informal businesses in Marondera, did not understand the importance of entrepreneurial organisation in running their businesses. In light of the foregoing, we posit the following:

H1: There is a positive and statistically significant correlation between entrepreneurship knowledge and formalisation of the informal sector.

2.5. Impact of Entrepreneurship skills on formalisation of the informal sector

Just like entrepreneurial knowledge, entrepreneurial skills are also an outcome of entrepreneurship education. According to Umihanic and Barucic (2016), entrepreneurial skills are related to planning, organising, managing, risk assessment and marketing of products and services. Jimenez et al (2015) claims that possession of entrepreneurship skills increases the propensity to engage into viable entrepreneurial activities as it improves the cognitive ability of an entrepreneur to identify opportunities and utilise them. Jimenez, et al. (2016) also stressed that businesses within the formal sector require a wide range of skills which enable them to operate efficiently and competitively. Without these skills, the informal businesses will find it difficult to operate. Despite acknowledging the importance of entrepreneurship skills in entrepreneurship, Jimenez, et al. (2016) and Umihanic and Barucic (2016) did not examine their impact on formalisation of the informal sector. We therefore believe that entrepreneurship skills have an impact.
towards the formalization of the informal sector, thus we state the following hypothesis;

**H1:** There is a positive and statistically significant correlation between entrepreneurship skills and formalisation of the informal sector.

2.6. Influence of Entrepreneurship attitude on formalisation of the informal sector

Entrepreneurial attitude relates to critical thinking and creativity (EU, 2012). Umihanic and Barucic, (2016), examined the impact of entrepreneurship attitude on entrepreneur’s ability to seize and exploit opportunities in South Africa and they concluded that entrepreneurship attitude is an important aspect in successful operation of venture. However, there was no direct link between formalisation and entrepreneurship attitude. This study sought to prove whether there is a link between this variable and formalisation of the informal sector, hence the following hypothesis is presented;

**H3:** There is a positive and statistically significant correlation between entrepreneurship attitude and formalisation of the informal sector.

2.7. The influence of education level on formalisation

According to the European Union (2015)’s study on the impact of education on entrepreneurship, Entrepreneurs with a strong educational background have high chances of owning innovative and productive companies. 12% of companies which are created by educated entrepreneurs in USA and UK (combined) had a turnover of over US$1 million while those started by entrepreneurs without educational qualifications had a turnover below US$500 000 (European Union, 2015). Furthermore, entrepreneurs with a strong background of entrepreneurial education show high intentions of starting large corporates which can make an impact on the economy as a whole. A study conducted in Spain by Jimenez et al. (2015) also support that education raises awareness on the negative side of informal entrepreneurship and at the same time giving entrepreneurs necessary managerial skills to operate formal businesses. Gunther and Launov (2012) argue that individuals without educational qualifications may lack planning, administrative, leadership and financial management skills and end up starting small to medium enterprises which are easier to manage.

Umihanic and Barucic, (2016) further noted that education provides entrepreneurs with the necessary motivation, knowledge, and skills essential for launching a successful enterprise. Umihanic and Barucic (2016) claim that the level of entrepreneurial activity in a country largely depend on investment in higher education because it provides entrepreneurs with skills necessary to transform businesses. However, Amindo (2011) disputed the notion that education forms the basis for successful and sustainable entrepreneurship and went on to single out competency as a determinant for sustainable entrepreneurship. The assertion that entrepreneurship is largely dependent on competency rather than education was dismissed by Sedlan-Konig (2012) who argued that formal education system which focuses on entrepreneur can also improve entrepreneurial competency. Although there is a unanimous view among scholars on the importance of education in entrepreneurship, many scholars ignored the impact of education level on formalisation of the informal sector. This led to the hypothesis below.

**H4:** There is a positive and statistically significant correlation between entrepreneur’s education level and formalisation of the informal sector.

2.8. Research model

We have theorised that Intention to formalise (INFORM) is a function entrepreneurial knowledge (EntreK), Entrepreneurial skills (EntreS), Entrepreneurial attitude (EntreA) and Level of education (EduL).

Hence:

\[
\text{INFORM} = \beta_0 + \beta_1 \text{EntreK} + \beta_2 \text{EntreS} + \beta_3 \text{EntreA} + \beta_4 \text{EduL} + \epsilon
\]  

Thus, the following equation was tested:

Intention to formalise:  \( (\text{INFORM}) = \beta_0 + \beta_1 \text{EntreK} + \beta_2 \text{EntreS} + \beta_3 \text{EntreA} + \beta_4 \text{EduL} + \epsilon \)  

![Diagram with variables and hypotheses]
3. METHODOLOGY

The study followed positivist philosophy as it seeks to unravel the influence of entrepreneurship education on informal entrepreneur’s intention to formalise. Cross sectional survey research design was employed as the main plan of the study. The target group for the study was made up of informal traders. The sample size of 265 was obtained using Yamane (1967) model. The study adopted a stratified sampling technique to ensure that all the sectors of the informal sector were represented. A structured, 5-point Likert scaled questionnaire was used to gather primary data from the informal traders’ sampling frame. Intention to formalise was measured using 5-point Likert scale questions where respondents were asked if they have intention to register their business. This follows Al-Jubari (2019)’s assertion that when people have intentions to do something, they will eventually do it. This logic was also used by Al-Jubari (2019) in entrepreneurial intention studies. Entrepreneurial knowledge was measured using antecedents of entrepreneurial knowledge such as competition intelligence, negotiation knowledge, knowledge of business laws, risk management knowledge, forms of business awareness, knowledge on business capitalisation. This follows Kim-Soon et al. (2016) argument that any form of entrepreneurial education should seek to instill business management knowledge. Entrepreneurial skills were measured using antecedents of entrepreneurial skills such as creativity, entrepreneurial finance, entrepreneurial marketing as well as business planning skills. To measure entrepreneurial attitude, the study used antecedents which resonate with entrepreneurial attitudes such as goal orientation, creativity, opportunity seeking, perseverance, need for independence, risk appetite and information seeking. Education level was measured using the level of education from primary level up to tertiary level. The scales were adapted from Lorz & Volery, (2011); Law & Breznik, (2017) and Maresch, Harms, Kailer, & Wimmer-Wurmn, (2016).

4. DATA ANALYSIS

4.1. Sample profile

The research discovered that 62% of the respondents were females while 38% were males. The results are in line with the ILO’s (2014) assertion that the informal sector is dominated by women. This could be attributable to the fact that many married women are house wives who are not formally employed and usually embark on informal entrepreneurship to supplement their husbands’ earnings. From the results, it was discovered that 9.5% of informal traders were aged between 18 and 28 years while 28.6% of the respondents were aged between 29 and 39 years. Furthermore 35.7% were aged between 40 and 50 years while 26.2% are between 51 and 61. In summary, the Informal sector is dominated by an age range of 29-50 years. According to Gorejena, (2015) the middle age population dominate informal trading and this represent working class population thus proving that informal trading is mainly due to lack of unemployment. Availability of formal jobs will see majority of these trading their businesses for formal employment. The research revealed that 21.4% of informal traders only achieved primary education, 33.3% have secondary education, 9% have certificates, 26.2% are diploma holders while 9.5 are degree holders. Further to that 20% of the respondents had done short courses in business while 80% had none.

4.2. Multicollinearity test

To satisfy regression analysis assumptions, multicollinearity test was conducted and the results are indicated on table 1 below.

The general rule for this test it that when the VIF values in the output are between 1 and 10, there is no Multicollinearity and if the VIF lies outside 1-10 then there is a problem of Multicollinearity (Kalnins, 2018). Using SPPS, the 4 independent variables namely entrepreneurial skills, entrepreneurial knowledge, entrepreneurial attitude and educational level were subjected to Multicollinearity and the VIF output for these variables is 4.5; 4.5; 4.7 and 4.6 respectively. These VIF values are within the accepted range of 1-10 and it indicate that there is no problem of Multicollinearity among the independent variables.

Since the researchers wanted to use the regression analysis, it was prudent to test for Multicollinearity. Multicollinearity is the problem which occurs in regression analysis when there is high degree of correlation between the independent variables (Disatnik & Sivan, 2016). The main bone of contention is that independent variables must not have high degree of correlation if the study is to produce reliable regression analysis results. Given the result of this test, the researcher is cleared to use regression analysis.

4.3. Hypothesis Testing results and discussion

Table 2: Correlation analysis.

Table 3. Model summary.

The scales were adapted from Lorz & Volery, (2011); Law & Breznik, (2017) and Maresch, Harms, Kailer, & Wimmer-Wurmn, (2016).
Using results on table 3, the Adjusted R² indicates that entrepreneurial education explains 54% (0.542) of the variance in formalisation. This means that the other (100%-54%) 46% is accounted for by variables which are not part of this study.

The correlation analysis results (Table 2) prove that there is a significant correlation between entrepreneurial knowledge and intention to formalise (r = 0.660, P = 0.000). This illustrates that informal entrepreneurs with entrepreneurial knowledge are more likely to formalise their operations. Furthermore, the regression analysis results show beta value of 48% and p value of 0.000 indicating that the relationship between the entrepreneurial knowledge and intention to formalise is very high and significant. Hence H₁ is accepted. Results parallels the findings of Umihanic and Barucic (2016) who discovered that entrepreneurial knowledge was the reason behind success of businesses enterprises. However, the results dispute Jiménez et al. (2015) who found out that entrepreneurship education was not instrumental in shaping formal entrepreneurial spirit but experience.

Hypothesis 2 sought to measure the impact of entrepreneurial skills on intention to formalise. Table 2 correlation analysis shows that the relationship between the two variables is significant (r = 0.645, P = 0.000). Regression results illustrate that the positive correlation between the entrepreneurial skills and intention to formalise is significant with beta value of 66% and p value of 0.000. H₂ is accepted. Results parallels the findings of Bukalia and Hama (2012) where it was discovered that entrepreneurs with entrepreneurial skills are likely embark on formalised ventures because they understand the risk of operating an informal venture.

Hypothesis 3 measures the impact of entrepreneurial attitude on intention to formalise. Correlation analysis table 2 points to a strong positive relationship between entrepreneurial attitude and intention to formalise (r = 0.590, P = 0.001). Further to that regression analysis results show that the relationship is significant, with a beta value of 50% and P value of 0.000. Thus H₃ is accepted. The results indicate that informal entrepreneurs with entrepreneurial attitude are more likely to register their businesses in future. Results are in agreement with the findings of by Bukalia and Hama (2012) who noted that entrepreneurial attitude enables entrepreneurs to acknowledge the benefits of registration their businesses.

Hypothesis 4 measures the relationship between education level and intention to formalise. The results of the correlation analysis (table 2) points to a weak relationship between education level and intention to formalise (r = 0.117, P = 0.323). Regression results further support that the relationship between the variables is insignificant with beta value of 6% and corresponding P value of 0.085. Hence H₄ is rejected. This illustrates that one’s level of education does not determine formalisation. Results dispute Jiménez et al (2015)’s assertion that many informal traders are reluctant to formalise because they have not acquired formal education. Heinz (2012) noted that the impact of education level largely depends on nature of education itself.

5. PRACTICAL RECOMMENDATIONS

Education and information should be made available to entrepreneurs who are already in business at lower or no costs. There is need to set up business clinics providing entrepreneurship education so that they impart informal traders with necessary skills. There is also need for authorities to take a holistic approach when it comes to issues of formalisation such as nurturing entrepreneurial skills and entrepreneurial attitude. Further to that there is need to revamp the educational; system so that it contributes meaningfully to the entrepreneurial efficacy.

6. CONCLUSION

The study concludes that entrepreneurial education is essential for the formalisation of the informal sector. Entrepreneurs with entrepreneurial education are likely to discover disparities between informality and formality and embark on formalisation process. The study utilized antecedents of entrepreneurial education (entrepreneurial knowledge, entrepreneurial skills, entrepreneurial attitudes and level of education. Results of the study proves that antecedents of entrepreneurial education have significant impact on informal entrepreneur’s intention to formalise. However, the study also discovered that level of education is not a significant contributor to formalisation if it’s
not entrepreneurial in nature. The study was purely quantitative in nature thus shutting out qualitative issues. Future studies may consider studying the influence of entrepreneurial education on a wider scale and may consider incorporating qualitative analysis.

REFERENCES


