

# Explaining Ethnic Minority Immigrant Women's Motivation for Informal Entrepreneurship: An Institutional Incongruence Perspective



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**Abstract** The informal economy has been a popular subject of research across the wider globe. However, there exists a dearth of literature exploring informal entrepreneurship among ethnic minority immigrant women. Different theoretical frameworks have been employed to explain the competing rationales. This study draws from institutional theory and collective identity. The institutional perspective proposes that informal entrepreneurship arises out of institutional asymmetry. By adopting an intersectional gendered lens, this paper evaluates the formal and informal institutional forces which influence women entrepreneurs to engage in informal business ventures. To do so, it reports findings from 25 face-to-face interviews with Pakistani and Bangladeshi women and representatives of local employment support organisations in Newham borough of London. The findings highlight that majority of these women entrepreneurs are engaged in informal homebased businesses mainly because of an interplay of informal and formal institutional forces whereby the former play a dominant role. The resulting incongruence between the formal and informal institutional forces creates opportunities in the informal sector while the collective identity of immigrant women entrepreneurs helps them recognise and exploit these opportunities. The outcome is a call for a new policy approach based on an institutional approach.

**Keywords** Entrepreneurship · Informal economy · Institutional theory · Immigrant women · UK

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## 1 Introduction

Recently, the informal economy has emerged as a popular subject of research across the wider globe (ILO 2013; Schneider and Williams 2013). Although, it has long been attributed as a permanent feature of developing economies, however, more recently, the informal economy in general (Jutting and Laiglesia 2009), and informal entrepreneurship particularly (De Soto 2001) has been recognised as an extensive and persistent feature in many populations. It is not only a mainstream economy in the developing world (Jutting and Laiglesia 2009), but also contributes to a significant proportion of GDP of developed economies (Schneider and Enste 2013) accounting for the employment of nearly two-thirds of the global workforce (Jutting and Laiglesia 2009) and contributing nearly 10% to UK's GDP (Schneider and Williams 2013). A significant body of research portrays informal economy in positive light because it allows many people to escape poverty (Wallace and Latcheva 2006), however, others have stressed the need to tackle this sector (European Commission 2007) not only because of the revenue losses from uncollected taxes but also because of factors such as weakened trade unions and poor working conditions (Andrews et al. 2011).

The informal economy is predominantly associated with migrant workers from ethnic minorities (Akhlaq 2005) and has a gendered dimension whereby women over represent this sector (ILO 2012; Williams 2009), especially those from ethnic minorities (Benach and Muntaner 2007). This warrants a more in-depth examination of this sector in the wider context of economic activities, where attention is paid to minorities, women and immigrants.

Exploratory research has established that immigrants experience challenges such as deskilling, credentialism and racism which situates them differently in the labour market (Ng 1988; Mirchandani 2003). These challenges are particularly akin to immigrant women who have been recognised as the most vulnerable in the labour market. According to Banerji (1987), "the very label of 'immigrant women' or 'women of colour' further stratifies the society and situates this group into a 'culturally, linguistically and politically' inferior position relative to non-immigrant women" (Onco 1992: 26). Apart from gender discrimination, immigrant women also experience ethnic and racial segregation which pushes them into marginal jobs in the secondary segment of the labour market (Phizacklea and Miles 1980). Other structural and individual characteristics which situate immigrant women differently in the formal employment include: weak social capital, limited information about jobs, poor human qualifications (Neville et al. 2014).

While researchers have discussed the plethora of labour market obstacles as significant push factors for individuals to become self-employers. A significant others have shed light on different rationales which attract immigrants particularly women to this sector reflecting on factors such as: social dignity, flexibility, opportunity to look after their children and avoid hefty childcare costs.

The aim of this study is to evaluate the competing motivations for women ethnic entrepreneurs to start informal businesses. The underlying research question is:

'What are the formal and informal institutional forces which drive ethnic minority immigrant women towards informal entrepreneurship and how can policies more effectively integrate them in the formal enterprise?' To answer this research question, this study adopts an intersectional gendered approach by focusing on ethnic women entrepreneurs of Pakistani and Bangladeshi origin who record the lowest formal labour market participation in UK and have a high tendency to rely on homebased informal businesses.

Drawing from two theoretical frameworks, namely the institutional theory and collective identity, this study posits that the institutional incongruence between formal and informal institutions explains Pakistani and Bangladeshi women's motivation to participate in the informal economy. While their collective identity facilitates opportunity recognition and exploitation in the informal economy.

This study will make a number of contributions to the wider literature. Firstly, it is unique in adopting an intersectional gendered approach in exploring informal entrepreneurship. Drawing from an institutional lens to explain the different rationales for ethnic entrepreneurs, this study advances the institutional theorisation discussed by Gërkhani (2004a, b). Secondly, it expands upon the identity theory to evaluate how the collective identity of self-employed women facilitates opportunity recognition and exploitation in the informal economy. Thirdly, from a policy perspective, institutional lens introduces a new approach to the policy front which calls forth a focus to reduce institutional asymmetry. Research on marginalised and vulnerable groups of individuals can raise the profile of such issues to national and local policy making bodies (International Labour Organisation 2008). It can inform efforts for developing improved policies for helping ethnic women entrepreneurs to gainfully access the formal entrepreneurial process.

To achieve this, the next section briefly reviews existing research explaining participation in the informal entrepreneurship as well as proposes institutional theory as an insightful analytical terrain to situate the competing rationales for informal work. In order to test the underlying proposition, the third section provides an outline of the research study based on face-to-face interviews with two groups: Pakistani and Bangladeshi informal entrepreneurs and representatives of local employment and enterprise support organisations. Section four discusses the findings and policy implications. The final section summarises the key arguments.

## 2 Literature Review

### 2.1 *Defining the Informal Economy*

The informal economy has a plurality of definitions. Castell and Portes (1989: 15) defines informal economy as, "a specific form of income generating production . . . unregulated by the institutions of society in a legal and social environment in which similar activities are regulated." While this definition has been widely used by researchers (Agarwala 2009; Tardanico 1997) and celebrated for defining informality

in relation to formal and informal institutions, however, it fails to provide clarity in two distinct ways (Webb et al. 2009). Firstly, it fails to acknowledge that although informal economy falls outside the realm of formal institutions, it still falls within the informal institutional boundaries; and second that although the informal economy is deemed ‘illegal’ from the perspective of the formal institutions, however it holds ‘legitimacy’ from the viewpoint of informal institutions (Webb et al. 2009). Hence, this paper defines informal economy as a “socially legitimate activity which is formally legal in every respect except that it is not declared to the authorities for tax, social security and/or labour law purposes” (OECD 2012; Williams et al. 2015: 296). This definition holds ‘legality’ and ‘legitimacy’ of economic activities central for the work to fall within the domains of informal economy, therefore, it excludes ‘renegade’ economy and ‘unpaid’ work. The term ‘informal sector’ includes a wide array of work, but this study will focus expressly on cash-in-hand work at home, or in the neighbourhood which remains invisible in quantitative data.

## ***2.2 Different Perspectives to Explain Informal Ethnic Entrepreneurship***

### **2.2.1 ‘Exit’ or ‘Exclusion’**

**Structuralist Perspective** According to the structuralist school of thought, informal entrepreneurship is viewed as a type of ‘precarious dependent’ or ‘false self-employment’ which is low paid, unregulated and insecure work conducted under ‘sweat-shop’ like conditions from marginalised populations who are driven into such work because of economic necessity or as a last resort (Amin et al. 2002). Structuralists conceptualise informal work as a ‘downgraded’ form of labour that is reduced to the lowest echelons of the labour market with poor working conditions, and is derived from state benefits and formal opportunities (Castells and Portes 1989; Sassen 1997). This perspective blames costly regulations and bureaucratic impediments to formalisation for the existence of informality (De Soto 1989). In addition, compliance with hefty taxes regime precludes individuals from operating formally. Under this conceptual lens, informal entrepreneurship is a by-product of the open unregulated economy and is the antithesis of decent work, thereby, warranting a policy solution of either eradicating or formalising it (ILO 2007).

**Neo-Classical Perspective** In a stark contrast to the structuralist school of thought, neo-classical commentators explain informal entrepreneurship as a voluntary ‘exit’ from the formal labour market (Gërkhani 2004a, b). This lens shifts the focus of informality as a last economic resort and instead conceptualises off-the-book entrepreneurship as a rational decision originating from an implicit cost-benefit analysis of operating informally amidst the stifling state imposed institutional

constraints (Packard 2007). Gërxhani 2004a, b: 274) elaborates that entrepreneurs 'choose to operate informally because they find more autonomy, flexibility and freedom in this sector than in the formal one'. In this perspective, informal entrepreneurship is viewed as a positive route to success and provides policy lessons for deregulating the legitimate economy (Williams and Horodnic 2016).

The 'exit- or exclusion-driven' perspective has long been a popular explanation to rationalise informal entrepreneurship and often recognised as mutually exclusive (De Soto 2001). However, a more nuanced school of thought has attempted to further expound upon this binary perspective, henceforth adopting a more integrative lens. These studies have attempted to classify 'exclusion' and 'exit' rationales according to certain occupations, gender, geographies, and income strata. From this conceptual lens, 'exclusion' was deemed more relevant to women and marginalised groups (Gurtoo and Williams 2009) while 'exit' to men and more affluent groups (Franck 2012).

### 2.2.2 Socialist Perspective

Beyond the exit or exclusion driven perspective, a third explanation has emerged which adopts a more fluid perspective. The socialist school of thought portrays informal entrepreneurs as social actors who engage in informal business venture for social relations (Williams 2004) mostly for wider social and redistributive reasons rather than the pure financial gains (Shahid et al. 2017). This view point also rationalises informal entrepreneurship as a resistance practice pursued in response to exploitation (Biles 2009; Whitson 2007) or an opportunity for people to transform or take up alterative identities by establishing 'lifestyle' business ventures (Snyder 2004). Hence, socialist perspective view informal entrepreneurship as voluntary exit because of social, redistributive, political or identity rationales (Biles 2009; Snyder 2004; Whitson 2007).

Commentators have largely employed these competing perspectives as mutually exclusive or stressed on a single perspective to explain off-the-book entrepreneurship (Amin et al. 2002; De Soto 2001). This research coupled with others criticises the separateness implied in the binary model of 'exit' and 'exclusion', highlighting that informal workers exhibit both exit and exclusion attributes (Arias et al. 2007; Shahid et al. 2017). It recognises that the informal sector is heterogeneous, and varies tremendously with workers and firms within countries (Arias et al. 2007: 2). Additionally, in certain cases the dichotomy is so blurred that it is rather completely indistinguishable (Arias et al. 2007). Amidst criticisms levied against this school of thought and lack of widely accepted explanations for participation in the informal sector, a more recent explanation rooted in 'institutional theory' has gained widespread attendance and acceptance because it provides a more nuanced analytical terrain to situate the competing rationales for informality.

## 2.3 *Theoretical Framework*

### 2.3.1 *Institutional Perspective*

More recent research by (Arias et al. 2007; Shahid et al. 2017) have advanced a more integrative approach to explain informal entrepreneurship. The institutional perspective argues that all societies are composed of governance structures and institutions which give stability and meaning to social behaviours (Baumol and Blinder 2008; North 1990). Different typologies of institutions exist (Aldrich and Fiol 1994), whereby the most influential tends to be that developed by North (1990) which dichotomises institutions into formal and informal institutions. Formal institutions are commonly understood as codified laws, rules, regulations and supporting agencies (enforcement agencies, regulatory bodies., etc.) that define legal rules of the game (North 1990; Webb et al. 2013) while informal institutions are defined as norms, values and belief which shape individual and wider social behaviour (North 1990; Webb et al. 2013) or can be more formally defined as “socially shared rules, usually unwritten that are created, communicated and enforced outside of officially sanctioned channels” (Helmke and Levitsky 2004: 727).

However, despite creating the binary of formal and informal institutions, scholars are divided over what describes ‘legitimate’. This is because society is composed of different groups. A confluence of factors such as “dispositional characteristics, personal experiences, contextual elements” shape individuals’ norms, beliefs and values in a society that is composed of different groups (Webb et al. 2009: 495). According to institutional theory, formal institutions reflect the codification of those norms, beliefs and values held by the most influential group (Scott 1995), hence, there must be less influential groups who define social acceptability differently. These contrasting norms, beliefs and values can create differences in what different groups view as legal—as specified by the laws and regulations—and what others view as legitimate—as specified by norms, values and beliefs (Scott 1995).

Hence, the informal institutions could either be complementary if they are congruent to the formal institutions or substitutive if they are contrary to the rules, laws defined by formal institutions (Williams et al. 2015). According to institutional theory, this incongruence between these codified rules, laws and regulations defined by the formal institutions and the informal norms, values and beliefs, creates opportunities in the informal economy which might not be congruent to the laws and regulations set by the formal sector but falls within the informal institutional boundaries shaped by different groups perception of ‘socially legitimate’ (Webb et al. 2009, 2013). If the level of incongruence between formal and informal institutions is small, citizens would be more inclined to observe legal rules, whereas if the asymmetry is large, citizens would be prone to operating informally—thereby magnifying the gap between what is deemed ‘legal’ and what is ‘legitimate’ (Webb et al. 2009).

Webb et al. (2009) invites commentators to view informal entrepreneurial activities through a broader analytical terrain whereby what is ‘illegal’ in the lens of formal institutions might be perceived ‘legitimate’ from the viewpoint of informal institutions.

'Informal entrepreneurs acting illegally rely on the legitimacy that comes from operating within the informal institutional boundaries to exploit opportunities and operate their ventures outside the formal institutional boundaries' (Webb et al. 2009). Institutional economists argue that the variation of informality across countries and regions is due to the difference in public perception about the benefits of avoiding regulations and taxes and the costs of sacrificing public services (Djankov et al. 2002).

### 2.3.2 Collective Identity

While institutional incongruence creates opportunities in the informal sector, the theoretical lens of 'collective identity' helps better understand the dynamics of informal entrepreneurs. Collective identity is described as the 'common bond tying individuals to a group' (Polletta and Jasper 2001 qtd. in Williams 2009: 497) which results in the formation of cooperative groups between entrepreneurs and others. This identification comes from an individual's cognitive, moral or emotional attachment to the group based on similar attributes. These identities can form because of one's race or cultural background (O'Reilly and Chatman 1986). Ethnic enclaves come across as the most well-studied form of collective identity and is described by Portes (1981: 290–291) as 'immigrant groups which concentrate in a distinct spatial location and organize a variety of enterprises serving their own ethnic market and/or the general population'. Informal entrepreneurs are able to create this collective identity with their co-ethnics. This identification and association within an ethnic enclave creates a conducive environment for immigrant workers because this ethnic group substitutes for the lack of access or non-identification with formal institutions (Wilson and Portes 1980). Shane and Venkataraman (2000) highlights that members in the collective group are able to seize opportunities through three types of knowledge; knowledge about the market opportunities that exist outside the realm of formal institutions, knowledge about the customers' needs and demands of the collective identity members, and knowledge about how to serve the needs of these collective identity members.

This study adopts a multi-level analysis drawing arguments from two theoretical levels to answer the research questions. The institutional theory is used as a theoretical framework to evaluate the asymmetry in formal and informal institutions which forms the rationale and creates the opportunities for informal entrepreneurs, while, the collective identity lens (Lounsbury and Glynn 2001) is used to expound upon how informal ethnic entrepreneurs rely on cooperative groups to access factor and product markets in the informal sector (Bletzer 2003) which acclimatizes opportunity recognition and substitutes for the lack of facilitation provided by the formal economy (Webb et al. 2009).

## 2.4 Existing Literature on Informal Entrepreneurship in UK

Until now, research on informal ethnic entrepreneurship tends to be scarce whereby very few studies have explored the dynamics, processes, mechanisms of informality

within ethnic minorities in UK (e.g. Jones et al. 2006; Ram et al. 2007). Ram et al. (2007) study is celebrated for highlighting the diversity and complexity of informal economy going beyond the mainstream justifications of profit making incentives and restrictive state regulations rather discussing other set of motivating factors such as the social incentives embedded in daily routine work which influence informal entrepreneurship (Jones et al. 2006). Until now, a few studies have used the institutional lens to reflect on the size of the informal economy (Gërxhani 2004a, b; Williams et al. 2015) apart from the exploratory research by Williams et al. (2015) which employs 'tax morale' as a proxy for institutional incongruence in UK.

Majority of these studies are gender blind despite the significant participation of women in informal enterprises (Raghuram and Hardill 1998). According to the formal labour force participation, ethnic minority immigrants record high unemployment rate of 7.9% with Pakistani and Bangladeshi women accounting for the highest unemployed rate of 15%<sup>1</sup> and recognised as the most marginalised ethnicities in UK. This starkly low formal labour market participation has caught interest of a number of researchers. Research by Brah (1996), Dale et al. (2002), Niven et al. (2013) have expounded upon the human and structural factors inhibiting formal labour market success. However, these poor formal labour market statistics misrepresent South Asian women's participation as they significantly contribute to their family businesses (Ram 1997). Ram et al. (2007) highlight that official figures of self-employment of Pakistani and Bangladeshi women are misleading because a lot of these women are invisible in homeworking. Ethnic minority women are inclined to homeworking (Brah and Shaw 1992) so much so that they account for nearly half of the home working forces (CRE 2005).

To address this information gap, this study will explore the existence, motivations and mechanisms leading to Pakistani and Bangladeshi women's participation in informal entrepreneurial ventures. In doing so, it will adopt the institutional perspective, a relatively understudied approach to understanding informality.

### 3 Research Context and Methodology

#### 3.1 Background

The research is set in Newham borough of London. A number of factors have informed this research setting. The borough is home to an ethnically diverse population with a significant population of Pakistani and Bangladeshi community (Newham.info 2017) (see Appendix). Additionally, it is characterised by a high concentration of low qualified individuals whereby 42% of the residents have no qualification compared to 9% of the people living in London (Ipsos Mori 2016). Given the concentration of low qualified individuals, it records a high unemployment

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<sup>1</sup>See Fig. A in Appendix I



rate of 10%, while a gendered and ethnic lens reveals that Pakistani and Bangladeshi women record the highest unemployment statistics of 13% (Ipsos Mori). Importantly, the borough experiences the challenge of underpayment of wages such that the hourly wage (£8.87 per hour) tends to be below both the national (£11.61) and London levels (£15.81) (Ipsos Mori 2016). A large proportion of the borough's population is skewed towards low paid jobs. Exploratory studies have highlighted the existence of informal work in the borough (Sissons et al. 2010). This is complemented by the research on the cash-in-hand business in Newham which confirms the presence of ethnic minority women in invisible work (Community Links 2008).

### 3.2 Methodology

In order to get an in-depth understanding of the rationales for informal entrepreneurship, qualitative research methodology was chosen as very little is known about the subjective experience of informal entrepreneurs in general (Harding and Jenkins 1989). In addition, qualitative research allows the researcher to engage more analytically, ask more 'why' questions to examine gendered labour segmentation (ILO 2008) and reveals insights from the respondent's perspective (McCracken 1988).

The research involved semi-structured, in-depth interviews whereby the interviewees were segmented in two groups. The first group comprised of women entrepreneurs of Pakistani and Bangladeshi ethnicity engaged in informal homebased businesses while the second group consisted of representatives of local employment support organisations.

The rationale for choosing these groups was to get a varied perspective whereby the rationales of informal entrepreneurs could be juxtaposed with the viewpoint of formal employment/enterprise support services. In total, 25 semi-structured interviews were conducted using a pre-prepared interview guide comprising of open and close-ended questions. (see Appendix II). It is important to highlight that interviews from Pakistani and Bangladeshi women entrepreneurs informed majority of the empirical results (see Table 1).

To identify the first group of informal entrepreneurs, snowball sampling strategy was adopted because of the sensitivity of the research topic and its advantages to access hidden populations, sensitive information and research an understudied population whose boundaries are difficult to specify (Heckathorn 1997). This sampling strategy has been employed by existing research studies on informal entrepreneurship (Edwards et al. 2016; Jones et al. 2004; Ram et al. 2007).

Given the complexity and challenges inherent in accessing informal homebased entrepreneurs, a few preliminary interviews were arranged with the help of references. As the research progressed, these interviewees helped access a wider network of women who were engaged in similar sorts of business ventures. The overall sample was heterogeneous comprising of women entrepreneurs from different districts of Newham, age groups, educational qualifications and income (see Table 3). The identity of these women has not be revealed because of confidentiality purposes.

**Table 1** Geographical break-up of the sample

Interviewees	Localities	Number of interviews
Pakistani/Bangladeshi women	Canning town East ham Forest gate Little ilford Stratford Upton park	20
Representatives of local employment/enterprise support organisations	Canning town Stratford	5

Source: Author's research sample

**Table 2** Description of the interviewees from local employment support organisations

Name of the organisation	Details of the organisation	Interviewee	Number of interviews
Newham workplace	Established by the Newham council in 2002	Deputy manger	1
Team support	Recruitment agency	Consultant	1
BS social care	Recruitment agency	Care consultant	2
Community links	East London charity working closely with Newham council and greater London authority	Youth employment; project manager	1

Source: Author's research sample

For the second group of interviewees, key informant interviews were taken from representative of local employment/enterprise support agencies at their workplace (see Table 2). It is important to note that this group of interviewees gave consent to use their names.

### 3.3 Data Collection Limitations

Given the sensitivity involved in interviewing women informal entrepreneurs operating at home, specific care was exercised in conducting interviews and framing the questions in a non-judgemental way. As these women entrepreneurs feared revealing identity would jeopardise their social security claims, complete anonymity was ensured and several techniques were employed to build rapport. Although, an inevitable challenge of the study was that interviewees were hesitant to expound on their work, however, previous researchers have used identical strategies to explore informal entrepreneurial ventures (Ram and Williams 2008; Williams et al. 2015),

hence there is little doubts about the participants hiding information. The clarity in interview design, the ability to create rapport and adherence to ethical norms ensured that the data collection process was completed smoothly. This research was unable to access policy makers working on informal entrepreneurship in UK and other advanced economies. To fill this caveat, secondary research was used to shed light on the policy front.

## **4 Findings and Analysis**

### ***4.1 Sample Description***

The sample of immigrant women entrepreneurs interviewed were predominantly involved in three sectors namely: food, beauty, and clothing (see Table 3). Majority of respondents had not engaged in entrepreneurial activities before migrating to UK. They reported that these skills were mostly passed down to them from their mothers. However, they regarded formal accreditation necessary for their informal businesses. These women entrepreneurs were asked a set of open-ended and close-ended questions about the dynamics of informal businesses, opportunities available in formal local labour market and their motivation for informal entrepreneurial ventures.

While the second group of interviewees comprising of representatives of local employment/enterprise support organisations were requested to dwell upon their perception of local labour market, existence of informal entrepreneurship in the borough and their views on how to tackle it. The findings are summarised in two key themes: formal and informal institutional forces influencing informal entrepreneurship.

### ***4.2 Formal Institutional Forces***

Respondents described their initiation of informal entrepreneurial activities as a response to a set of 'formal' institutional barriers to employment. These rationales transgress the thinly defined dichotomy of 'exit' or 'exclusion' as a fusion of both are imbedded in the formal institutional factors namely; fiddling, extensive regulations, lack of human skills, failure of formal employment support agencies.

#### **4.2.1 Fiddling: 'Working While Claiming Benefits'**

Within the 'formal' institutional factors, fiddling or 'working while claiming' came across as a significant factor encouraging informal entrepreneurship. The UK government provides social security benefits to low income earners supplemented by

**Table 3** Characteristics of Pakistani/Bangladeshi women interviewed

Characteristics	Number of interview respondents
<i>Current occupation</i>	
Catering	6
Beauty	6
Tailoring/selling Pakistani clothes	5
Jewellery making	3
Painting/calligraphy	1
<i>Age</i>	
20–35 years	8
35–60 years	12
<i>Current nationality</i>	
British	18
Pakistani	2
Bangladeshi	1
<i>Country of birth</i>	
Pakistan	11
Bangladesh	9
<i>Qualification</i>	
Level 1 (primary)	1
Level 2 (secondary)	3
Level 3 (diploma)	6
Level 4/5 (university)	10
<i>Employment status</i>	
Self-employed	20
<i>Marital status</i>	
Single	9
Married	11
Mothers	9

indirect benefits which discourages these women entrepreneurs to formalise their business.

This is further lent credence by research that demonstrates unique relationship of informality and poverty in the context of the state policies pushing people to operate informally (Fernandez-Kelly and Garcia 1989). Interviewees rationalised their informal entrepreneurial activities while claiming benefits as their only window of opportunity to supplement their income as the social security benefits were insufficient. This is supported by research on informal entrepreneurship serving as means to supplement household income especially for immigrant women of ethnic minorities (Ferman and Brendt 1981: 38). Prior research on cash-in-hand informal entrepreneurial activities in Newham highlighted that individuals were engaged in this sector because of a ‘need not greed’ (Community Links 2008). While, benefits level remained bare minimum, claimants viewed ‘off-the-book’ businesses as morally legitimate.

The benefits are hardly enough to afford expensive London living. With no formal opportunities and extensive regulations such as 16 hrs work limit with the benefits, I do not see any other option to pay off the hefty debts but to engage in informal work. (Pakistani woman, 35–40 yrs, Tailor)

#### 4.2.2 Extensive Regulations

Women entrepreneurs reported that the extensive formalisation process posed a strong disincentive to formalize their business. They highlighted the various steps involved, starting from seeking permission from local council to complying by the extensive accounting responsibilities. Amongst the sample understudy, only 1 out of 20 participants had formalised her business and even she deemed it a mistake.

I was working as a homebased caterer since the last 7 years. Last year, I opened a 'Doner Shop'. Registering has been a painstaking experience. A large percentage of my profits is lost in the 20% tax rate and another £7000 in monthly shop rent, besides the regular fines (54 yrs, Caterer)

These findings reflect that there were extensive procedural requirements to formalisation which extended beyond registration. This was coupled with low trust in the government. However, it was interesting to find out that majority of the women were well-aware about the process but had made a rational choice to operate without informing the authorities. Empirical research by Friedman et al. (2000) highlights that a high degree of regulation is correlated with larger size of the informal economy.

Amidst the procedural complications to formalisation, women reported a low risk of detection. They highlighted that their work had been operational since years yet they had not experienced any risks. When they were asked if they feared the implications of the tax and social security authorities if they found out about this work, women entrepreneurs stated that the authorities were overburdened in helping those actively seeking employment.

#### 4.2.3 Failure of Formal Employment Support Services

Whilst recognising the poor labour market outcomes for a large majority of immigrants, the UK government has initiated welfare-to work policies and massive regeneration initiatives in Newham in the past five to 6 years. These initiatives range from giving local Jobcentres Plus the flexibility over the kind of support they plan to give to the claimants and initiation of programs such as 'Help to Work' to help long term unemployed get back to work ([Newham.info](http://Newham.info)). In addition, initiatives such as Newham 'Workplace' are working complementary to local Jobcentre Plus whilst at the same time providing specialised employment and enterprise support services.

Amidst these initiatives, the informal economy continues to exist. When representatives of these employment agencies were questioned about their knowledge of

the existence of informal enterprises in the borough, they acknowledged its presence yet their inability to tackle it. Their capacity constraints and resource limitations posed a challenge to support the unemployed who were eagerly seeking employment. Thus, informal entrepreneurship served to be a blessing in disguise.

Previously there were four Jobcentre Plus offices in Newham, however now only two are operational. Newham Workplace is overburdened with helping hundreds of unemployed people to get into employment however we suffer from capacity constraints. (Operations Director, Newham Workplace)

Contrastingly, when informal women entrepreneurs were questioned about the usefulness of these local employment support agencies, majority perceived these services to be useless in helping them land into formal jobs. Those who did seek assistance from these services quoted the unsatisfactory support provided by Jobcentre Plus and their lack of understanding about the kind of support needed by them. Women reported that their opportunities were not fully explored.

As soon as I came to UK, I tried to seek employment support from the local Jobcentre Plus in Newham. Although, I did get enrolled in a one-year child minder course at a community centre, however, I never transitioned to a permanent job. (51 years, Artists).

Very few South Asian women visit us for employment support. We had a few who visited us in the past but they too were irregular. (Tony Martin, Employment Consultant, Team Support).

Although, Newham has experienced massive regeneration initiatives in the past such as the London Olympics 2012 and Westfield Stratford Shopping Centre which created a significant number of jobs in the last few years. However, it appears that these initiatives failed to create the right kind of jobs for the population under study. Contrastingly, the women entrepreneurs in the sample highlighted that the formal jobs in their area had informal characteristics such as lower wages and long working hours. The research findings signify a mismatch of the skills, needs and aspirations of the Pakistani and Bangladeshi women entrepreneurs and the support provided by local statutory and voluntary support organisations.

#### **4.2.4 Lack of Human Capital**

While other formal institutional forces play a significant role in explaining participation in the informal sector, the research study aimed to examine the relevance of human factors in explaining Pakistani and Bangladeshi women's entrepreneurs to operate informally. While literature highlights the poor educational qualification as an explanation for labour market obstacles faced by Pakistani and Bangladeshi women (Brah and Shaw 1992). However, the research sample for this study comprised of a heterogeneous group of women with varying educational qualifications. Among the sample of 20 women, eight of whom had secondary and primary education qualifications only three attributed their personal lack of qualifications and skills as the cause of their participation in informal entrepreneurship.

While, the sample is too small to debunk the *a priori* assumption of weak educational qualifications explaining informal entrepreneurship, however, it does raise attention to a distinguishing trend of a high proportion of educated women who were growth entrepreneurs rather than survival entrepreneurs. Research highlights the uneven level playing field whereby Asians needed to be much better qualified than natives to stand a better chance of labour market success (Dale et al. 2002). In contrast, representatives of local employment support organisations viewed low educational qualification of Pakistani and Bangladeshi women as the most significant factor behind their exclusion from formal jobs and participation in informal economy. This perception reflects their lack of understanding about the nature of informality and characteristics of those involved in this sector.

### 4.3 *Informal Institutional Forces*

Whilst most research evaluating the rationales for informal entrepreneurship has underscored the significance of formal institutional forces, it has ignored the importance of informal institutional factors namely: ethnic and socio-cultural forces. This study sheds light on the informal institutional forces in influencing informal entrepreneurship.

#### 4.3.1 **Socio-Cultural Factors**

**Domestic Responsibilities** Deploying a gendered lens to understand informality reveals that women are more likely to engage in informal entrepreneurship to achieve an ideal 'work-life balance'. Evidence from UK reveals that women assign family commitments ten times higher than that by men to justify their self-employment (Carter and Anderson 2001). However, research by Dale et al. (2002) points out the differences in family structures and expectations associated with a women's role in home or at work varied widely across ethnicities and could not be generalised along ethnic lines.

Among the sample of women entrepreneurs under study, majority explained domestic responsibilities were considered the primary responsibility of women in their culture. Informal entrepreneurship provided them the best window of opportunity to utilise their skills to achieve economic returns whilst managing household chores (Vinay 1985).

If I have a family commitment, I can simply call my clients and tell them that I cannot manage orders for that day. I love being my own boss. (28 years, Caterer)

These findings well support Barot et al. (1999) research which highlights that South Asian women are reproducers of cultural forms and their conventional gender roles define their employment choices.

**Caring Responsibilities** Research explains barriers attached to female formal labour market participation to their gender and caring responsibilities as mothers (Hall et al. 2004). Nearly all the mothers in the sample quoted that informal entrepreneurship allowed them to take care of their children themselves. This finding has been supported by previous research in other countries whereby self-employment is increasing because entrepreneurship allows greater flexibility in childcare arrangements (Wellington 2006).

Managing two toddlers and working from 9am to 5pm is impossible to manage. Who is going to look after them? (28 years, Jewellery Maker)

Women entrepreneurs in the study expressed their hesitation to take up childcare facilities and reported that it was assumed that they will prioritise family over work. This reluctance in childcare usage was also confirmed by other research studies in UK (Bell et al. 2005; The Runnymede Trust 2013). Interviewees expressed their lack of trust in professional childcare facilities and community expectation of taking care of their children themselves. While expensive childcare and lack of affordability was mentioned by a few vulnerable ones, but it did not come across as one of the most significant reasons for their informality.

I would feel guilty if I leave my kid at the childcare. I feel no one can take care of my child the way I do. (29 years old, Makeup artist)

**Social Networks** Women under study attributed their decision to initiate informal businesses to have been influenced by their social networks. Research on ethnic enclave economy in UK reveals that personal networks are the most popular channel to access formal labour market, although not the most effective (Frijters et al. 2005; Battu et al. 2011). Given the complexity involved in measuring the strength of social networks, this study adopts the Calvó-Armengol and Jackson (2004) model of social networks which suggests the presence of strong and weak ties in determining individual's labour market outcomes whereby strong ties are described as ties with direct friends while weak ties as 'friends of friends' (Calvó-Armengol et al. 2007; Granovetter 1983).

Employing geographical proximity and ethnicity as proxies to understand the existence of strong and weak ties (Patacchini and Zenou 2012), respondents were questioned about the diversity and locale of their social networks. A significant majority revealed their social networks comprised purely of South Asian women. Only 2 out of 20 women entrepreneurs reported a non-Pakistani friend while 18 out of 20 reported strong ties with women of same ethnicity, majority of whom lived in the same neighbourhoods. When women were questioned as to why do they not mix with other ethnicities, majority reported that they did not feel the need to socialise with others, while a handful of others reported their different interests. Similar residential location and concentration of co-ethnics defined their social networks. Respondents reported that their friends and relatives not only helped them initiate their business but also in supported in increasing their clientele and provided



financial support. A strong feeling of trust, cooperation and mutual support tied these informal social networks together.

When I came over here, I knew nothing about the labour market opportunities. My Pakistani friends gave me suggestions, understood my skills and convinced me to start tailoring. (30 years old, Tailor)

Right after I started my catering business, I felt I wouldn't be able to survive this business, but my friends helped me great deal in expanding my clientele. (40 years old, Caterer)

My friends gave me loans to set up a beauty salon at my house. These loans helped me initiate my business and credit arrangements were quite flexible. (38 years, Beautician)

### 4.3.2 Ethnic Factors

**Demand for Ethnic Products** The sample under study highlighted their motivation to initiate informal entrepreneurship closely linked to the high demand of ethnic products which the formal market was not fulfilling either at an affordable cost, quality or was entirely absent. Women entrepreneurs highlighted the high demand for traditional services such as Pakistani makeup artists/henna artists, traditional tailoring services, beauticians and products such as traditional clothes, food, jewellery and clothes. It is this specialised field of demand in this niche ethnic market which calls for ethnic businesses to come into existence. The sample under study reported that large majority of their ethnic product/services were purchased by co-ethnics within the same locality. Research points out that heavy reliance on co-ethnic networks can serve to be extremely fruitful when co-ethnics tend to agglomerate in that locality to create sufficient aggregate demand. In the sample under study, women entrepreneurs reported the following motivations.

**Demand for Traditional South Asian Food** UK is a large market to South Asian cuisine whereby people from all ethnicities greatly admire the food for its unique blend of spices, colour and aroma. A number of women entrepreneurs in the sample were home based caterers specialising in heterogeneous products such as snacks, curries and frozen food. They reported the demand for the food was not limited to co-ethnics and they experienced an exponential hike in orders during festivities such as *Eid*, *Ramadan* and weddings. Few women entrepreneurs were providing 'Tiffin' lunch services to South Asian students and were promoting their business through social media at low costs.

On Eid, I spend straight 12 to 13 hours to complete the food orders. (45 years old, caterer)

**Demand for Pakistani and Bangladeshi Beauticians (Makeup Artists, Henna Artists)** Women entrepreneurs reported a high demand for South Asian beautician services which were not met by the formal labour market. This demand was unique

and very well spread among the South Asian community throughout London hence it was not limited to the geographical boundaries of Newham. When asked as to what set their services apart, they reported the large variation in beauty standards in Pakistan and Bangladesh which did not conform to the services provided by the salons in London. Others reported that the demand for ethnic products and services such as '*henna*' was hugely popular among Pakistani and Bangladeshi community but was once again not catered by majority of the parlours.

The bridal makeup service offered by the salons over here differs markedly from the ideal 'Pakistani Bride' which the Pakistani community over here idealises. (28 years, Makeup artist)

**Demand for Traditional Clothes** The Pakistani and Bangladeshi clothing market also came across as a popular niche market in UK. Respondents reported that the South Asian community in UK greatly admired latest clothing trends followed in their country of origin. Women entrepreneurs in the clothing business ranged from women who excelled at hand embroidery, those who specialised in tailoring traditional clothes and others who sold ready-made clothes purchased from Pakistan/Bangladesh. Respondents reported that this market could expand even more as there was a large demand for these products but few suppliers.

A large majority of Pakistani and Bangladeshi women prefer dressing in traditional dress, however, there are very few tailors specialised in this unique tailoring. (51 years old, tailor)

When respondents were asked as to what made their service unique given some clothing shops existed in places such as Green Street in Newham, majority stated that their customised service set them apart and reported that their work was unique, more up to date to the fashion trends followed in Pakistan and Bangladesh and of better quality.

A large proportion of women entrepreneurs under study reported having taken up vocational training courses to professionalise these businesses ventures and increase credibility. They reported having taken relevant courses such as 'Food and Hygiene', 'skin care' among others. This accreditation helped them reach out a wider audience and ensured their product and service met the quality requirements. In addition, another interesting trend was the use of social media to reach out to a wider audience.

## 5 Discussion and Policy Implications

The sample of women entrepreneurs gave insightful accounts of formal and informal institutional forces in explaining their motivation for informal entrepreneurship. Majority of the women held their informal institutional forces as the dominating

factor for explaining their informality while it was further reinforced by formal institutional forces.<sup>2</sup>

Drawing from institutional theory, the sample under study reveals that the formal laws and formal labour market at present is not designed to offer employment opportunities and enterprise support facilities to ethnic minority immigrant women. Hence, there is misalignment of the support services offered by the formal sector compared to the needs of these women. While the social security policies and excessive state regulation have created a strong disincentive to formalise homebased businesses. Contrastingly, the economic behaviour of women entrepreneurs under study is driven by informal institutional factors, namely: the socio-cultural and ethnic forces.

These women's socio-cultural expectation of prioritising domestic and familial responsibilities restricts them to the vicinity of their home. While the failure of the formal enterprise to provide ethnic products, provides them a niche market which could be exploited. The resulting incongruence between formal and informal institutional forces creates opportunities in the informal economy. Whilst the presence of strong collective identity between the group of immigrant women formed by their strong ties with member of same ethnicity and residential location helps them recognise opportunities in the informal economy. Women entrepreneurs in the sample became cognizant of the possibility of catering to the niche needs of the members of collective identity.

Amidst these set of conditions, tackling informal work requires policies to correct the institutional incongruence. According to Webb et al. (2009), dealing with informal entrepreneurship from a policy perspective is challenging because of the social costs and benefits involved. To achieve symmetry between formal and informal institutions, changes should be made in both. To rectify formal institutions that is the codified laws, rules, and regulations, firstly there is a need to create an economic environment in which economic activities can be formalised with minimal regulatory impediments. Secondly, attempts must be made to ensure the tax system is not hefty (Schneider and Williams 2013). Thirdly, from a policy standpoint, the focus of policy makers should be on creating the right kind of jobs and personalised enterprise support services in deprived neighbourhoods. As this study points out the capacity challenges faced by local employment support organisations such as 'Jobcentre Plus' and 'Workplace' as well as privately recruitment agencies, attempts must be made to improve service delivery.

However, changing the informal institutional forces is a much more effective in the longer term (Webb et al. 2009). In order to achieve this aim, attempts must be made to target those beliefs which stimulate informal entrepreneurial activities rather than targeting those norms and values defining collective identities. In the case of ethnic minority women, attempts can be made to improve their usage of childcare by build trust in the services available. Secondly, advertising campaigns can be employed which improve awareness about the costs of working informally and

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<sup>2</sup>See Table 1 in Appendix

benefits associated with formal employment (OECD 2012; Williams et al. 2015). Thirdly, awareness sessions can be used to influence women to expound upon their skills by working formally. Fourthly, normative appeals can be made using signs such as ‘your taxes paid for this’ on roadside, community centres, hospital (Williams et al. 2015).

## 6 Conclusion

The objective of this paper was to examine the competing rationales for informal ethnic entrepreneurship of immigrant women who appear to be the most marginalised and vulnerable group in the urban local labour market in advanced economies. To examine the research proposition, women of Pakistani and Bangladeshi ethnicity were randomly selected for face-to-face semi-structured interviews from Newham, one of the most deprived and ethnically diverse borough of London. Local employment and enterprise support agencies were also interviewed as part of the research endeavour. The research with the two groups of stakeholders revealed a diversity of formal and informal institutional factors which are influencing women’s motivation to engage in informal entrepreneurship.

This study advances a relatively less-common analytical lens for explaining the informal economy. Employing a multi-level analysis, it draws upon the institutionalist perspective to argue that the incongruence between the formal and informal institutions creates opportunities in the informal economy to exist. While, collective identity among member of same ethnicity helps replace the need for formal institutions by helping them recognise the opportunities that exist in the informal economy and cater to the needs of these members. At the same time, the paper also employs an intersectional gendered lens to explore the heterogeneity of rationales which explain informal entrepreneurship. Hence, it underscores the problem of ‘one-size-fits-all-women’ policies and invites policy makers to understand the nuances in the series of challenges faces by certain communities.

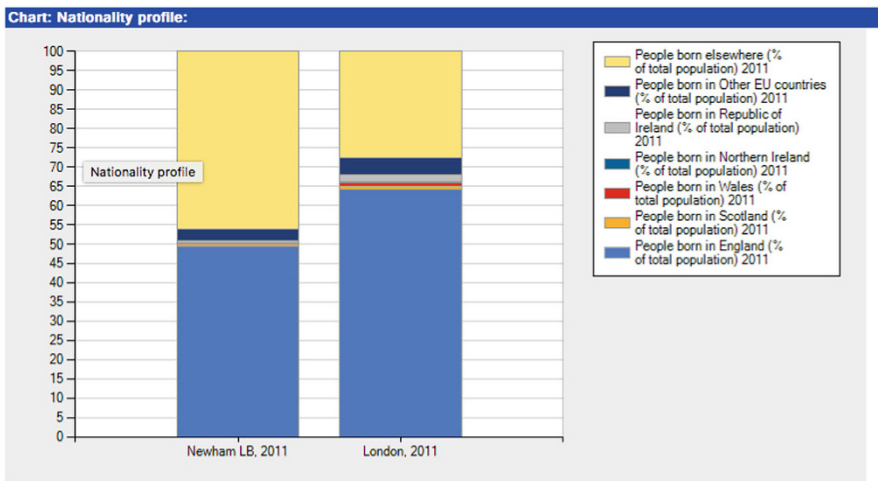
Ultimately, this paper argues the needs to align both formal and informal institutions by introducing rectifications in both. For formal sector institutions, the study argues the need for improving the broader economic environment, facilitating the regulation process to formalisation, creating right kind of jobs in the local labour market, and improving the procedural and redistributive justice and greater support for marginalised groups. On the other hand, it also requires alterations in informal institutions through measures such as increasing awareness and building trust in childcare facilities, awareness raising campaign and other normative measure.

The findings of this study must be exercised with caution. The study is localised geographically within Newham, borough of London and comprises of a relatively

small number interviewees. Further research should concentrate on other ethnic groups within other geographical locations. The views of this study cannot be considered representative of the wider Pakistani/Bangladeshi women in UK. However, the study highlights rich contextual insights of the dynamics of immigrant women’s entrepreneurs’ experience of local labour market and their cash-in-hand homebased businesses which are difficult to access.

The intersectional gendered approach employed in this study has provided an insightful understanding of informal entrepreneurship and it stimulates further evaluations of the validity of institutional asymmetry and collective identity explanation for informal participation of other vulnerable groups, wider population, at other spatial scales and other global regions such as developing countries where informal economy is the mainstream economy. This work also leads the government to understand informal entrepreneurship to be a result of institutional incongruence and encourages them to work on decreasing the asymmetry between formal and informal institutions by rectifying both the formal and informal institutions through better informed policies.

### Appendix I: Figures and Tables



**Fig. A** Ethnic profile of Newham borough of London. Source: Newham.info 2017

**Table A** Main reasons for interviewees participation in the informal economy

Reasons for engagement in informal employment	Theoretical explanation	Number of Pakistani/Bangladeshi employees
<ul style="list-style-type: none"> <li>• Lack of qualifications/skills</li> <li>• Excessive regulations to formalisation</li> <li>• Low risk of detection</li> <li>• Failure of formal local labour market organisations</li> </ul>	Formal institutional forces	7
<p><i>Socio cultural forces</i></p> <ul style="list-style-type: none"> <li>• Domestic/familial responsibilities</li> <li>• Caring responsibilities/childcare</li> <li>• Social networks</li> </ul> <p><i>Ethnic forces</i></p> <p>Demand for ethnic products/services: Food, clothing, beauty, jewellery</p>	Informal institutional forces	13

Source: Semi-structured interviews by the researcher

## Appendix II: Questionnaire

### *Questionnaire A: For Pakistani/Bangladeshi Women*

To avoid ambiguity in defining informal work, the term was defined clearly for the interviewees.

Undeclared work is a relatively common and socially acceptable activity, and refers to activities which were not or not fully reported to the tax or social security authorities and where the person who acquired the good or service was aware of this. Apart from regular employment, have you yourself carried out any informal paid activities in the last 12 months? (Williams et al. 2015: 299).

#### Section 1 (Demographics)

1. What is your age?
2. Where in Newham do you reside?
3. If you don't mind, could you please tell me your educational qualification?
4. Are you self-employed?
5. What is your country of origin?
6. Are you married? If yes, do you have children?
7. When and from where in your home country did you migrate from?
8. What was the primary reason for migrating to Britain?
9. Are you a British national?
10. What is your average weekly income from your current occupation?
11. Do you claim any sort of social security benefits?

## Section 2 (General Questions About Their Work)

1. In your view, how many Pakistani/Bangladeshi women are involved in cash-in hand homebased businesses without declaring their income to tax and social security authorities?
2. Have you personally carried out work in similar settings without declaring your income to tax and social security authorities?
3. Can you please elaborate on the types of work you have been engaged in and which one of these holds the most importance in terms of the number of hours you spend doing it?
4. When did you start doing this work? Has this been a continuous engagement or more of a seasonal work?

## Section 3 (Perception About the Formal Labour Market Opportunities)

1. Did you ever apply for formal jobs prior to initiating your informal homebased business?
2. Do you prefer working formally or informally?
3. Does your locality have enough opportunities to work formally?
4. Does your locality offer employment/enterprise support services through Jobcentre Plus, 'Workplace' and any other private support agencies?
5. Did you ever seek assistance from these support agencies?
6. If yes, were you satisfied with the kind of support offered?
7. What is your perception of the social security benefits and how fair is the tax system?
8. Are you aware about the procedures involved in formalising your homebased business?
9. What is the biggest impediment to formalising your business?
10. Have you made use of any childcare services? (This question was posed to the mothers in the sample.)
11. If better opportunities arise in the formal sector, would you prefer working formally?

## Section 4 Open-Ended Questions About Participation in Informal Employment

1. How did you start your informal business? Who was your primary source of information and influenced you to start this work?
2. Would you please explain the reasons for operating informally?
3. Amongst the reasons you just mentioned, which one of these would you consider as the most important rationale for informal participation?
4. What are social, cultural benefits for operating informally?
5. Who is the most prominent customer to your products/services?
6. What are the primary means of advertising about your work and improving your clientele?
7. Do you see any disadvantages in operating formally?
8. Do you risk detection from the tax and/or social security authorities?

9. What kind of social network do you have? Does it comprise or consist of South Asian women only or are there people from other localities as well? Are these people residents of Newham or more widely spread?
10. What role does your social network play in helping you promote your business?
11. Do you wish or plan to formalise your work in the near future? If yes, why? If no, why not?
12. Do you think majority of Pakistani/Bangladeshi women are inclined to working informally?

### ***Questionnaire B: For Representatives of Local Employment Support Agencies***

#### Section 1 General Information About the Local Labour Market

1. In your view what is the local labour market like?
2. What are the opportunities for employment for the residents of Newham? Is there a fair mix of highly skilled jobs or is it skewed towards low to medium skilled jobs?
3. What is your view about levels of unemployment and economic activity in this borough? Are these levels particularly high among women of certain ethnicities?
4. In this area, what is the type of benefits with the highest proportion of people claiming?
5. Has the type of people claiming these benefits changed? Have they increased/decreased in the last 5 years?
6. Are there any ethnic group or population group over-represented in benefit claimants?
7. What is the business environment in the area? Are small and medium business important to the area?
8. Does your organisation provide exclusive support to women of ethnic minorities seeking to initiate entrepreneurial ventures?
9. Your organisation provides a list of services, what do you think is the most popular service and most common problem people come to seek advice for?

#### Section 2 Perception of Informal Work in the Borough

1. Could you tell me your understanding of the informal economy in this area?
2. Who do you think is most likely to be involved in informal economy? Are you aware about the cash-in-hand, homebased businesses?
3. How big is the informal economy? Do you think people informal entrepreneurship is motivated by need or greed or a confluence of factors?
4. Amongst the given options, which of the following set of reasons would you rate as the most likely for Pakistani/Bangladeshi women entrepreneurs' motivation to operate informally?



5. Do Pakistani/Bangladeshi women seek assistance for formal jobs from your organisation? Is their participation rate as high as other ethnicities?
6. Your organisation provides a list of services, what do you think is the most popular service and most common problem people come to seek advice for?

### Section 3 Future Implications

1. What kind of work has your organization undertaken in response to informal entrepreneurship?
2. In your opinion, can entrepreneurs be steered towards the formal enterprise?
3. Do you think there is a need to formalize the informal businesses?
4. Do you think the punishment approach has worked? Do you think informal work can be stamped out?
5. Do you think policy makers have a good understanding of informal entrepreneurship in this area and the initiatives undertaken are sound?
6. Do you think the response to informal entrepreneurship should be gender and culture specific?

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