

10

Innovation and Entrepreneurship in the Informal Economy: Insights from the Ground Zero

Pavan Soni

Employment in the informal economy is frequently related to low-paying jobs, chronic poverty, weak social protection, sweatshop environments, labor exploitation, low productivity, and limited opportunities to move up the economic ladder. The informal economy has for long been understood as a ‘problem’, and researchers have advocated for various measures to overcome this issue. The International Labor Organization (ILO) impresses upon quality employment and decent jobs to solve the problem of informal economy, whereas the World Bank deems functioning labor markets and institutional reforms as a panacea.

However, it is getting apparent that many people in developing and developed countries voluntarily opt out of the formal setup to be self-employed in the informal economy. A large part of the informal economy today happens on an own-account basis, and has graduated from ‘exploitative sweatshops’ to a ‘hidden enterprise culture’. Though the

P. Soni (✉)

Indian Institute of Management Bangalore, Bengaluru, India

e-mail: pavan.soni@iimb.ernet.in

© The Author(s) 2017

S. Raghunath, E.L. Rose (eds.), *International Business Strategy*,

DOI 10.1057/978-1-137-54468-1_10

215

interest in studying informal economy has grown in the recent years, and a considerable ground is covered on investigating the entrepreneurs within, not much has been said about their innovations. India, the world's largest informal economy by size, houses more than a few million entrepreneurs and offers a very fertile ground to study the innovations these entrepreneurs bring to thrive in such setups. Innovation in the informal economy becomes all the more important to achieve competitive differentiation, and there do not exist sufficient institutional mechanisms to protect the property rights of the players, and transaction costs are very high owing to non-existence economic intermediaries.

The chapter attempts to investigate the phenomenon of innovation amid the entrepreneurs operating in the informal economy. Situated in an urban setup, in the city of Bangalore, the paper delves into the practices of two highly innovative self-employed street vendors. The intent is to study the motives, strategies, innovations, and philosophies adopted by such entrepreneurs. Based upon in-depth interviews, this working paper proposes four key insights. First, these entrepreneurs started by being necessity-driven, but once they got the taste of doing business, they became opportunity-driven and remained in the informal economy. Second, they developed and adopted simple heuristics to make their pricing and inventory management decisions, considering their negligible educational level and limited apprenticeship avenues. Third, the entrepreneurs exercised market innovations in identifying the right locality and offerings to do business with, and by saturating the carrying capacity of their respective markets, thus managing to keep competitors at bay. Last, artful tactics and innovations were observed in the way these informal entrepreneurs managed their relation with the formal economy, especially with the police and regulators.

The paper has five sections. The first section offers an overview of the existing state of research on the informal economy, including characteristics and schools depicting the phenomenon. The second section delves into research on entrepreneurship in the informal economy and presents the critical debates and insights. The third section builds the case for the need to study entrepreneurship in the informal sector in India, with a focus on understanding innovation practices. The fourth section details the study, and the fifth section shares the interim findings. The profile sketches of the two entrepreneurs considered in the chapter are in the appendix.

The Nature of Informal Economy

For long, economists did not consider the informal economy worthy of studying. It was not until Hart (1973) documented the economic activities in the low-income groups in Ghana that the economists and sociologists took notice of the phenomenon that exists at the margins of the formal economy. In another influential work, Portes, A., Castells, M., and Benton, L.A. (1989) depicted the various informal sectors that exist outside the regulatory ambit. Informal sectors exist in different forms and across developing and developed economies. The ILO defines informal economy as:

All economic activities by workers and economic units that are—in law or practice—not covered or insufficiently covered by formal arrangements. Their activities are not included in the law, which means that they are operating outside the formal reach of the law; or they are not covered in practice, which means that—although they are operating within the formal scope of the law, the law is not applied or not enforced; or the law discourages compliance because it is inappropriate, burdensome or imposes excessive costs. (Trebilcock, 2005: 2)

Researchers have highlighted different dimensions of the informal economy. For instance, De Soto (1993) bases informal economy on the strength of or even complete *absence of property rights*; Swaminathan (1991) characterizes such economies by *lack of regulation and state recognition*, which Trebilcock (2005) argues to be *rooted in poor governance*. Regarding the people engaged in such economies, Williams (2008) identifies them to be mostly working on full or partial *off-the-books manner*, while Maloney (2004) deems them as *voluntary micro-entrepreneurs*, owners of small firms.

There are predominantly five schools of thoughts explaining the phenomenon of informal economy:

- **Dualist view:** It bases the rise of the informal sector to the population growth and urban migration in emerging economies, and the inability of the formal economy to absorb the surplus of unskilled and uneducated labor (Hart, 1973; Trebilcock, 2005). According to this school, as economies develop, their formal economy would absorb all of the informal activities.

- **Structuralist view:** It proposes that the informal economy exists to support the formal economy by offering low-cost, specialized jobs, and hence they both are tied in a capitalistic system. Most of the informal sector hence supports the formal sector through subcontracting, providing flexible labor, and specialized skills (Piore and Sabel 1984).
- **Legalistic view:** This view argues that informal economy stems from excessive complexity and cost associated with registration of formal economic activities, and high taxation on small entrepreneurs (De Soto, 1993). Here people chose to voluntarily exit formal economy, and thereby signal a widespread resistance to overregulation (Williams & Nadin, 2010; Maloney, 2004).
- **Post-structural view:** It highlights the entrepreneurship pursued social and redistributive reasons, rather than purely financial gains (Williams & Nadin, 2010).
- **Colonial view:** Under this approach, the informal economy is maintained by the restrictions imposed by the settled-colonial domination, such that the dominated state is cut-off from the formal mainstream economy for the immediate gains of settlers, as in the case of Israeli settlement in Palestine (Awwad, 2012).

Against the belief of the *dualist* theorists that the informal economy will slowly disappear as economies world over develop, informal economies are anything but shirking in developing and developed countries (Swaminathan, 1991; Cross, 2000). This increase in the share of informal activities can be attributed to a shift of many formal sectors to informal ones, recessionary pressures on the formal economy, an absolute increase in the volume of informal activities, and changing demographic dividend (Jütting, Parlevliet, & Xenogiani, 2008).

While estimating the size of the informal economy, ILO classifies the people engaged in the informal sector into two categories: *those employed in the informal sector* and *actual informal employment*, where jobs in the informal sector and informal employment refer to different aspects of informality. Accordingly:

Employment in the informal economy is an enterprise-based concept and covers persons working in units that have ‘informal’ characteristics about, e.g., the legal status, registration, size, the registration of the employees, their bookkeeping

practices, etc. Informal employment is a job-based concept and encompasses those persons whose principal jobs lack basic social or legal protections or employment benefits and may be found in the formal sector, informal sector or households. Almost all individuals employed in the informal sector are in casual employment. However, not all those in informal employment belong to the informal sector: there may be people working outside of the informal sector (i.e., either in the formal sector or households producing for own final use) that have casual employment. (ILO, 2012)

Based on the study of 47 medium- and low-income countries, the report highlights that in all except two countries, the number of persons employed in the informal sector exceeds that in informal employment outside the informal sector, suggesting that the bulk of casual work is concentrated in jobs in the informal sector (ILO, 2012). In India, there were 185 million persons with casual employment in 2010–2011, representing 83.6 percent of the non-agriculture employment. Of this, 35 million were females, and 150 million were males; and the 83.6 percent of informal employment primarily constituted of persons employed in the informal sector (68.8 percent). China, on the other hand, had only 32.6 percent of its workforce engaged in informal employment.

Further, one must appreciate that formality and informality in an economy exist more as a continuum rather than as binary states (Trebilcock, 2005). In a survey of the participation of workers in the formal and informal economy in *Bangladesh, China, Ethiopia*, and Indian state of *Gujarat*, the finding was that Gujarat had the highest share of people working in completely informal setup or mix of formal and informal, as compared to any other context (Jütting et al., 2008). India appears as not only the world's largest informal economy but also home to a significant number of entrepreneurs operating in this space. We now move to one of the interesting phenomena in the informal sector—*entrepreneurship*.

Entrepreneurship in the Informal Economy

Swaminathan (1991) deems that three forms of employment exist in the informal sector: *self-employment*, *family labor*, and *hired labor*, where the hired labor could further be of a casual or stable type. In a more

encompassing definition, the ILO classifies employment in the informal sector into four segments: *wages and salaried workers*, *employers or entrepreneurs*, *own-account workers*, and *contributing family workers* (Jütting et al., 2008). In another report, Williams and Nadin (2010) offer a distinction between entrepreneurs trading in the informal economy versus those participating in the criminal economy that engages drug-dealers, human traffickers, kidnappers, and extortionists, among others. Clearly, the interest of this study is in observing the activities of *self-employed or owner–manager–entrepreneurs operating legal businesses*, albeit unregulated.

For the purpose of this chapter, we adopt the definition of entrepreneurs in the informal economy offered by Williams and Nadin as:

those engaged in the paid production and sales of goods and services that are legitimate in all respects besides the fact that they are unregistered by, or hidden from the state for tax and benefits purposes. (2010: 363)

The informal sector offers a fascinating setting to study entrepreneurship. Identifying the entrepreneurial potential provided by the informal economy, the ILO states that such an economy provides opportunities for workers to display real business acumen, creativity, dynamism, and innovation (Trebilcock, 2005). Gerxhani (2004) justifies the choice of entrepreneurs to operate in the informal sector stating that such a setup offers them more autonomy, flexibility, and freedom, and helps exhibit their creativity.

Entrepreneurship in the informal economy can have many sources. Stebbins (1982) identifies informal enterprise in the form of people pursuing *serious leisure*, which can take the shape of amateurism, hobbyist pursuit, or career volunteering. In a study of self-employed workers of New York City's East Village neighborhood, Snyder (2003) explicates three routes to the informal sector: *constricted opportunity in the formal sector*, *individual economic motivations*, and *individual identity motivations*. Informal setups could also be *spin-offs from formal employment* (Williams, 2008; Maloney, 2004). Entrepreneurial activities in the informal economy are studied from multiple perspectives. Some of the perspectives are given below.

State of Country's Economic Development

A state's economic development affects the employment opportunities available for labor to participate in, and it is shaped further by the strength of its institutions. One of the critical determinants of entrepreneurial activities is the availability of funds and labor. With underdeveloped or inefficient intermediaries in the underdeveloped economies, formal entrepreneurial activities are rendered costly (Krishnan, 2010). Hence, entrepreneurs in underdeveloped or developing economies resort to informal means of gathering funds, labor, and market access (Maloney, 2004).

In a study of entrepreneurial activities in *Russia, Ukraine, and England*, Williams (2008) identified that in these three countries, 100 percent, 90 percent, and 77 percent of entrepreneurs operate in informal economies, respectively. Interestingly, even in developed countries, such as England, one in five entrepreneurs operates on an entirely informal basis, with other entrepreneurs having varying levels of regulatory control. The study also shows that a significant portion of informal entrepreneurs is clustered around the lowest and the highest income quartiles, contrary to the view that informal economy mostly engages people from lower income groups.

Gender-Based Participation in Informal Entrepreneurial Activities

Gender has a very significant influence on the opportunities and situations that lead to involvement in the informal economy. Women are overrepresented in the informal sector as they have fewer avenues available for the formal setup (Maloney, 2004). Marital status has a huge bearing on participation in the formal economy. Further, women with young children are more likely to be engaged in entrepreneurial activities in informal setup than single ones (Jütting et al., 2008).

Williams and Gurtoo (2011) identify the critical insights that current research on the participation of women in the informal economy offers. First, female entrepreneurs in informal economy *operate at a very low level of organization and scale* and have little or no access to institutional

credit. Second, they *lack formal space for operations* and have to protect themselves from harassment by local authorities, apart from facing severe occupational hazards associated with improper working conditions. Third, their work often *does not constitute a separate legal entity*, independent of the household, even though most transactions are market-based. Lastly, they are subjected to *severe mobility constraint* owing to other household responsibilities.

Perpetuity in the Informal Economy or Graduation to Formal Economy

Entrepreneurs may participate in the informal sector as a stepping stone to get enrolled into the formal economy, and many others may continue with the informal setup (Williams & Nadin, 2010). In a study of workers in the informal sectors in Latin America, Maloney (2004) identifies voluntary micro-entrepreneurship activities where such entrepreneurs preferred informal sector over the formal sectors and did not treat it as a stepping stone. For instance, in Mexico, over 60 percent of entrepreneurs in the informal sector left their previous jobs and entered the industry voluntarily. Such entrepreneurs devise informal mechanisms anchored in their social networks and immediate neighborhood for managing risks.

Further, entrepreneurs chose to operate in areas where they could maximize their utilities and have a comparative advantage over others or against participating in the formal sector (Jütting et al., 2008). Hence, the dualist perspective, which advocates that people would treat the informal economy as a stepping stone to participate in the formal economy, has not met with strong empirical support, especially in rapidly developing economies.

Opportunity-Driven or Necessity-Driven Entrepreneurship

In a global study of entrepreneurial activities, Bosma and Levie (2010) classify entrepreneurship based on individual as *opportunity-driven* or *necessity-driven*. The opportunity-driven or 'pushed' enterprise refers to those endeavors born out of choice to exploit a business opportunity

while necessity-driven or ‘pulled’ entrepreneurship involves options where work is either limited or unsatisfactory. This 2009 study of *Global Entrepreneurship Monitor* depicts that the ratio of opportunity-driven to necessity-driven business owners is higher in high-income countries than in middle-income countries (Bosma and Levie, 2010). However, in a study of households engaged in off-the-books basis activities in English localities, Williams (2007) identifies that the ratio of opportunity-driven to necessity-driven business owners is no different from that observed in formal economic setup or legitimate entrepreneurship. In fact, a large share of entrepreneurs in the informal economy tends to be opportunity-driven rather than being pushed by the circumstances. This finding goes against the ‘marginality thesis’ which offers that the informal economy ‘forces’ people to take up self-employment primarily due to lack of opportunities.

Education level and age also have implications on participating in the informal sectors as entrepreneurs or self-employed. Jütting et al. (2008) observe that people with a moderate level of education are more likely to be self-employed in the informal economy than those with none or very high education levels. Similarly, middle-aged and older individuals are more likely to be entrepreneurs in the informal setup, as younger people would have better opportunities in the formal sector or as waged workers.

Entrepreneurship in India’s Informal Economy

India houses arguably one of the world’s largest informal economies. With over 185 million people employed in various informal jobs outside of the agriculture sector (ILO, 2012), the segment plays a vital role in the country’s growth. Amit Mitra, the Secretary General of the Federation of Indian Chambers of Commerce and Industry, attributes India’s growth story to its over 45 million entrepreneurs operating in the informal economy (The Economist, 2010). On another account, Dasgupta and Singh (2005) opine that for India to meet its above 6 percent gross domestic product growth trajectory over next few years, more jobs and work have to be found in the informal sector for a large number of people. This infers creation of more employment in the services sector, and generation of greater entrepreneurial opportunities in the informal economy.

The informal economy in India is studied from various perspectives in recent years. In a very early work, Breman (1996) studied the activities in the informal and semi-formal sectors in the state of Gujarat in India, focusing on employment patterns. In a study of self-help groups of women in the micro-credit industry, Hill (2001) highlighted the importance of mutual recognition in activating worker identity, and work–life balance in achieving economic development. Carr and Chen (2001) depicted the impact globalization has on workers in the informal economy of India. Harris-White and Sinha (2007) studied the effects of trade liberalization on employment in the informal sector in India and the resulting social disparity, taking the instance of garments and rice processing industries. More recently, Athique (2008) took up the case of India's moviemaking industry as an informal setup in depicting the entire value chain of activities and the way various agents interact across the formal and informal sectors.

Contrasting with studies on overall informal economy, little research has delved into entrepreneurship in the informal sectors in India.

In a study to assess the impact of India's post-liberalization economic policies on entrepreneurs in the informal sectors, Gurtoo (2009) conducted a survey of 1255 workers engaged in the various informal sectors in India. Her findings were that the income of micro-enterprise owners (in the informal sector) was twice that of informal sector workers; informal entrepreneurs were happy to work in their professions and did not consider lack of alternatives as the drivers of their participation in the informal economy; and that they have limited access to formal welfare schemes. Equipped with the insight that entrepreneurship in India's informal sector is not predominantly necessity-driven, Gurtoo proposes a framework that could enable to unearth the hidden entrepreneurial culture existing in informal sectors of India. In another study on women entrepreneurs in the informal sectors located in the tier-1 and tier-2 cities of India, Williams and Gurtoo (2011) highlight the role of '*entrepreneurial ecosystem*' in entrepreneurial ventures. Such networks help the focal entrepreneurs exert socio-cultural influence to perform a business, in the absence of economic influence that is available to the formal entrepreneurs.

In another set of studies, researchers have documented the improvisation abilities of people at the grassroots level in bringing about product and process innovations. Called as *jugaad*, a Hindi word for improvisation, such products and processes are good-enough remedies of immediate problems that people face. While there is an application of creativity, these outcomes cannot be deemed as truly innovative, as they often lack scalability and reliability (Krishnan, 2010). In a significant effort, the *Honey Bee Network*, as a part of the National Innovation Foundation in India, engages in documenting local knowledge, inventions, innovations, and improvisations carried out by people in the informal economy (Gupta, 2006).

Notwithstanding the efforts like those of the *Honey Bee Network*, and researchers studying women entrepreneurship and those of people on the margins of the formal economy, I observe a significant opportunity to explore creativity and innovation among entrepreneurs in the informal sector. Most of the research on creativity and innovation in the context of entrepreneurship has been set up in the formal sector (Carland, Hoy, Boulton, & Carland, 1984); hence, such an effort could also inform the global audience.

One could argue that creativity and innovation are much more required in the informal sector than in the formal. The very fact that the entrepreneur in the informal economy does not have the economic means to influence various stakeholders, she has to be far more ingenious. In a country like India where institutions, both hard and soft, are not adequately developed (The Economist, 2010), ingenuity could make the difference between survival and death while operating in the informal economy. Contextualize this with the fact that most participants in the informal sector come from lower strata of the economy, are not adequately educated, and have very few means of finances. Creativity and innovation become all the more vital under such circumstances.

Having argued for the existing gap in the literature of entrepreneurship in the informal economy, we now look at some attempts to study innovation and creativity among entrepreneurs in some of the informal sectors of India.

The Study

In one of the epic works in the field of entrepreneurship, Schumpeter (1934) emphasized on entrepreneur as the ‘*agent of economic change*’, and placed innovation at the heart of the enterprise. He proposed that growth comes from ‘*new combinations of material and energy*’ performed by entrepreneurs, and not by the accumulation of capital. The entrepreneur ‘*commercializes a new good or a new method of production, opens a new market or discovers a new source of supply, or carries out a new organization of industry*’ (1934: 68). It is through the act of ‘*creative destruction*’ that the economic equilibrium gets disturbed, and a new order gets created (Schumpeter, 1942).

Schumpeter placed the entrepreneurs in question squarely in the formal economy, and hence elegantly identified the types of innovations that the entrepreneur can bring about. But in an informal setup, there are several constraints imposed on the entrepreneur and the range of innovation activities get impacted consequently. For instance, the entrepreneur may not be able to bring about innovations that impact the industry structure, as Schumpeter would desire.

In an attempt to look at the innovative activities of an entrepreneur beyond Schumpeter’s conceptualization, Manimala (1992) conducts a grounded study on entrepreneurs spanning formal and informal sectors in India. Manimala identifies ten types of innovations that such entrepreneurs usually engage in (1991: 7).

- **Market/Marketing innovation** : *This involves discovering a relatively new market, employing new market strategies to tap an unaddressed market, and erecting entry barriers for competitors.*
- **Product innovation** : *This comprises mainly of making modifications in the existing products and introduction of locally new products.*
- **Process innovation**: *Common methods in this category include modification of existing processes to circumvent patent protection, making use of locally available labor and resources to product cheaper alternatives of existing products, and bringing improvements in quality.*
- **R&D management innovation**: *Though rare, such an approach calls for devising novel ways of managing the R&D efforts without having*

formal departments, mostly by leveraging entrepreneurs' informal networks.

- **Supply/Supply-source innovation** : *Faced with a shortage of supply or lack of demand in the market, such engagements mostly involve vertical integration or partnership commitments.*
- **Personnel innovation** : *These innovations focus on building a continuous stream of trained personnel under situations where labor quantity and quality isn't adequate, and labor laws are weak or even inexistent.*
- **Financial innovation** : *Such innovations mostly involve mobilizing funds from outside rather than managing them internally. Some of the approaches are through chit-funds, micro-credits, and convertible debentures.*
- **Cultural innovation** : *In ensuring that the enterprise in its budding state works as a collective whole, entrepreneurs pay attention to institutionalizing a culture and a way of thinking. In the absence of legitimacy and other resources, such a culture creation calls for ingenuity.*
- **Structural innovation** : *Akin to the business model innovation, such a dimension looks at the way the enterprise is structured and the trade-offs the entrepreneur exercises. This could involve subcontracting engagement, flexible working hours, or working-from-home kind of set-ups, among others.*
- **Government relations innovation** : *An often ignored feature, yet very necessary in the informal structure is the approach to managing the relationship with authorities and regulatory bodies.*

Manimala observes that 'successful entrepreneurs are innovative in some areas, during some phases (of their entrepreneurial journey), and at least in some degrees' (1992: 18).

The present study documents the innovation and creativity aspects of selective entrepreneurs in the informal economy in India. Here we adopt the definition of creativity as 'the process of developing and expressing novel ideas that are likely to be useful', and innovation as 'the embodiment, combination, and synthesis of knowledge in novel, relevant, valued new products, processes or services' (Leonard & Swap, 1999). Since creativity is hard to observe unless manifested in some form of innovation, for the

purpose of this paper, we focus on the innovative outcomes of entrepreneurs' engagement, instead of the creativity of the entrepreneur per se. With over 80 percent of India's non-agriculture employment absorbed in the informal economy, most of which is self-employment, studying the phenomenon of innovation remains a humongous task. The paper adopts some strict boundary conditions to identify the subjects of the study. These are:

- **The entrepreneur must have remained in the informal economy for over a five-year period.** The intent is to understand the reasons for which the entrepreneur has stayed in the informal sector. It must, however, be observed that illegal and black-market activities are kept strictly outside the purview of the study.
- **There must be at least one significant innovation introduced by the entrepreneur in the market.** While every entrepreneur engages with one of the ten kinds of innovations to varying degrees (Manimala, 1992), the subjects considered for this study must have excelled significantly in one or more of innovative dimensions as compared to the market in which they operate. Being first to the market is a useful heuristics to identify such subjects.
- **The entrepreneur must be actively involved in the day-to-day operation of the enterprise.** Entrepreneurs in the informal economy can take the form of serial-entrepreneurs or those managing a portfolio of business, or just providing funds to other entrepreneurs. While these are certainly legitimate and interesting cases to study, the present investigation focuses on those actively managing their enterprise, and by that token, would mostly be the owner-managers of their setup.

Identifying entrepreneurs meeting these criteria, especially with high levels of demonstrated innovation, is a rather tall task. The current study has managed to identify two such entrepreneurs based out of the *Koramangala* area of Bangalore. A cosmopolitan located in South Bangalore, *Koramangala* houses around a million people and is spread over an area of 1800 acres.¹

¹ Gathered from multiple sources, including local newspaper supplements.

The identification happened through frequent visits to the area, references from friends and colleagues, and articles from the local newspapers.

The Tentative Findings

The project involves carrying out in-depth interviews with innovative entrepreneurs sustaining in the informal economy. So far, two entrepreneurs are identified and interviewed. The interview duration was 120 minutes and 90 minutes respectively, and this happened in two sittings. Appendices 1 and 2 provide the profile sketch of the two entrepreneurs. Here are the tentative insights gathered so far from this ongoing study.

- ***Graduation from necessity-driven to opportunity-driven entrepreneurship:*** Both of our cases talk about entrepreneurs from the marginalized sections of the society. *Md. Fayaz* is from the Muslim community, which was marginalized during the 1970s when he started his journey, and *Amri Devi* is an immigrant from Rajasthan. Though their start would be deemed as necessity-driven, much in line with the prediction of Bosma and Levie (2010), they soon graduated to opportunity-driven entrepreneurship. For instance, well aware of the diseconomies and risks involved in the business of selling high-value dry fruit items on the street side, Fayaz continues enjoying his business. His risk appetite keeps his competitors at bay.
- ***Heuristics-driven decision making:*** Busenitz and Barney (1997) identify development and exercising of heuristics as a definitive feature of an entrepreneur. In our cases also, both *Md. Fayaz* and *Amri Devi* adopted simple pricing heuristics to run their businesses single-handedly. This is noticeable, especially in the backdrop of their absolute absence of any formal education or apprenticeship opportunity. Further, both the cases lacked any formal means of competitive benchmarking or availability of substitutes to arrive at appropriate pricing strategies. *Md. Fayaz* aimed at maintaining a

margin of 8 percent on dried fruits, while *Amri Devi* eyed for nothing less than INR 50 for a hand-made product. Anything above was welcome. Similar heuristics were adopted to manage the inventory levels, for in case of *Md. Fayaz*, the inventory carrying costs are very high. These simple rules reduced their cognitive load and let them 'enjoy' the endeavor.

- ***The knack of discovering new markets:*** In his study of entrepreneurs in India, Manimala (1992) identified market/marketing innovation as the most common of all types of innovations exercised. In the two cases that we studied, there were extensive efforts laid in identifying the right market and the locations to do business in. *Md. Fayaz* recognized early on that Koramangala is upmarket, people are more cosmopolites, and would want to spend on buying dried fruits for health and hedonic reasons. He situated his shop at a major traffic junction on the 100 Ft. Road in Koramangala, and kept large glass jars displaying his products. Similarly, *Amri Devi* identified the need for hand-made decorative items for household and set her shop next to the busy *Forum Mall*. By doing so, they saturated the carrying capacity of the market and hence dissuaded competitive entry.
- ***The art of managing government relations:*** Another essential aspect Manimala (1992) identified of entrepreneurs, especially in emerging economies, is their innovation in managing relationships with authorities and regulators. Since our entrepreneurs operate in completely informal setup, they have to ward off misappropriation of their hard-earned money. For instance, *Mr. Fayaz* kept it very clear from the outset that he would not pay any money to police or any local *mafia*. However, he would be okay to feed them his dried fruits once in a while. In fact, he deems feeding them would earn their loyalty and blessings from his *Maalik*. The case of *Amri Devi* is even more important in the way she managed to get a reasonably good house, with free electricity and water supply in the Koramangala locality, where a similar house would have cost her anywhere above INR 6000 per month as rents. We call this as the art of managing

relations, as the entrepreneurs highlight the adoption of socio-cultural pulls, instead of economic mechanisms to play in the informal economy, as also depicted by Williams and Gurtoo (2011).

As we identify more entrepreneurs who have brought about remarkable innovations while continuing with the informal economy, we would gather more insights onto our working paper journey.

Conclusion

The paper was an attempt to look at the creativity and innovation dimensions of the entrepreneurs operating in the informal economy. The informal economy, whether it is in developing nations or developed ones, offers a fascinating setup to study entrepreneurial activities. India alone has seen its share of studies on entrepreneurs in the informal economy. However, the study identifies that not much focus has gone into studying the innovations that such setups espouse among entrepreneurs. Hence, the paper studies a set of entrepreneurs who have stayed in the informal economy for a long time, have introduced significant innovations and are still actively managing their enterprise.

Based on the little investigation, the insights gathered suggest that though the genesis of entrepreneurship could be necessity-driven, entrepreneurs may shift to opportunity-driven, once they experience success, and build a taste of doing business. Secondly, in spite of no formal education, or maybe because of it, such entrepreneurs rely heavily on simple rules of thumb for pricing decisions and running their business mindlessly. Regarding innovation, the two entrepreneurs demonstrate remarkable abilities in identifying the right markets and localities to serve and set up their business in, and in developing a beneficiary relation with the regulators in the formal economy. This remains a working paper, and would attempt to gather more cases to deepen and broaden the investigation on innovation and creativity in the informal sector.

Appendix 1

Mohammad Fayaz is a street vendor selling **high-quality dried fruits** in the 5th Block locality of *Koramangala*. Aged 51, Fayaz has been a self-employed agent in the informal economy for past 40 years. His first experience of entrepreneurship was at a tender age of 10, when he used to sell bananas in the *Malleswaram* area of Bangalore. Middle among his other four brothers, Fayaz was pushed into entrepreneurship by his circumstances at an early age. Since then, he graduated to selling fruits in the *Yeshwantpur* and *Malleswaram* areas, and for the past 10 years, he has setup this dried fruits shop in *Koramangala*.

He, along with his wife, mostly attends to the shop. The business is essentially sourcing dried fruits, like almond, walnut, figs, dates, raisins, apricots, peaches sources from New Delhi, and other items like spices and cashew nuts bought from interior and coastal parts of Karnataka and Goa. Almost all trade happens on off-the-book basis, and all contracts are verbal.

His customers range from homemakers, to college goers, office goers, and even auto drivers. Fayaz estimates that at any given time, he carries an inventory of about INR 150,000 at his shop. He sells commodities worth INR 8000 on an average on the weekday and averages around INR 12,000 on weekends. He maintains a 10 percent profit margin on dry fruits and almost 18 to 20 percent margin on spices. Of every 100 customers that visit his shop, ten make a purchase. That makes an average earning of INR 800 on a normal day and INR 1200 on a good day.

Our entrepreneur deems that not only in *Koramangala*, but also anywhere in Karnataka that such a shop exists! He reasons this aversion of people getting into this business and low competition to the high risk the business involves. Typically, businessmen would prefer dealing with low-value, high-turnover items, as compared to selling dried fruits on the street side. According to Fayaz, an investment of over INR 200,000 for returns of INR 1000 per day keeps most of his competition at bay, but for him, he enjoys this business.

He keeps his condiments in large glass jars where customers could see the quality for their satisfaction and occasionally taste dried fruits before making a purchase. He deems this strategy to work out, as people prefer buying dried fruits in open as against in packets where the quality might be suspected. That places him at an advantage as against formal shops selling packaged dried fruits. High entry cost and value of item is his entry barrier for competitors. He however took loan from one of his friends 10 years back to get into this line of business.

Fayaz has none employed to attend to the shop; however, he appoints a night watchmen who looks after the carts during night, and is paid INR 100 per day. In terms of informal arrangement with the local authorities and

police, the entrepreneur does not pay any protection charges, but instead feeds the police officer with his dried fruits once in a while, if they ask for some favors. He keeps the shop closed on Friday, and on other days operates between 9 AM and 9 PM with regular lunch breaks, when her wife attends to the shop.

Fayaz is a very straightforward person and has a very strong faith in God and destiny. He believes that God, he calls him '*Maalik*', has asked him to do this business, and with His kindness he makes a living. On his philosophies, he believes that his duty is to serve the customers with the best possible product and not get upset if the customer does not buy or does not return. His strategy of inducing repeat purchase is to delight the customer with good quality product. With strictly no bargaining, he however may choose to tender a little extra 10 grams while selling to a customer he deems needy.

On his expansion plans, Fayaz looks very satisfied with his current setup, and 'enjoys' his work. He has not expanded in the last 10 years, and does not plan to do so, for he thinks expansion would bring along headache and he may not enjoy what he is doing.



Carts carrying over INR 150,000 of goods left on a regular Friday off



Engaging a customer on a Saturday noon

Appendix 2

Amri Devi, aged 50, is a **handicrafts maker** with a roadside shop opposite *Forum Mall* in *Koramangala*. A mother of six, Amri migrated from *Pali* district of Rajasthan some 40 years back in search of better livelihood. She started her business in *Koramangala* even before the time the locality existed. Most of her time was spent on the roadside, rearing a large family and enabling her kids to attend school, which they managed to.

Amri's shop has handicraft items, wooden items, terracotta vases, and clay products. Except for the terracotta vases, which she sources from a vendor based in interiors of Andhra Pradesh, all other items are made at her home. Amri employs her nephew in the mould making process, and she herself does the painting of the produce. For instance, she displays a two feet tall statue of *Lord Krishna*. The approach is that she buys good-looking statues from a shop, creates mould from it, and then starts making replicas to be sold at a lower cost. Such statues would be sold at INR 500 on a normal day. Terracotta vases could fetch her anywhere between INR 300 to INR 500, on a cost of INR 150, whereas the smaller clay items could get her a margin of INR 50 on an INR 150 product. Of the 100 customers that stop by her shop, 5 make a purchase. This makes her daily earning to be around INR 500, at sales of INR 1200. But since most of her items are made by her family, the margins are rather okay for sustenance.

As for her finances, she does not have a bank account, and mostly deals with the supplier of terracotta vases and other products in an informal manner. Whatever money is left after meeting the household expenses, she spends that money sourcing newer products to be displayed at her boutique.

She was allegedly the very first vendor selling such items in this locality, and pretty much remained so, till about recently. The most interesting part of Amri's entrepreneurial journey is her struggle in getting a place for her family of eight. In last several years, her family has been displaced at least a dozen times. Every time she had to go to the local police station, and plea for the future of her children. She finally managed to convince the local authorities and police to let her run her roadside boutique. Listening to her struggles would fill your eyes, but she looks thrilled about what she is doing, and is proud of her journey so far.

Her struggles with the local administration have made her earn a house, with free electricity and water connection. This small setup measuring 20 x 20 feet accommodates her family of 10 now, and just outside is her shop.

As for the future plans, Amri is confident of sustaining her current setup, as now her kids are well placed to take care of themselves, she has a place to stay with her husband and sons, and she likes the business. She says that the current setup keeps her busy meaningfully, keeps her with her family and grandchildren, and that is how she wants to lead her life. Not planning too much into the future, Amri rests a lot of hope on God, and is neither too eager to grow nor too upset with her current state of affairs.



Roadside display of clay items, show pieces, and vases



A small setup in the backyard to mould clay items



Coloring the bought out terracotta vases

References

- Athique, A. (2008). The global dynamics of Indian media piracy: Export markets, playback media and the informal economy. *Media, Culture and Society*, 30(5), 699–717.
- Awwad, N. A. (2012). Debating the informal economy: Considering Colonialism and Palestine. *Review of Women Studies (Special Issue)*, 1, 52–66.
- Bosma, N., & Levie, J. (2010). *Global entrepreneurship monitor: 2009 global report*. Babson Park: Babson College.
- Breman, J. (1996). *Footloose labour: Working in India's informal economy*. Cambridge: Cambridge University Press.
- Busenitz, L. W., & Barney, J. B. (1997). Differences between entrepreneurs and managers in large organizations: Biases and heuristics in strategic decision-making. *Journal of Business Venturing*, 12(1), 9–30.
- Carland, J. W., Hoy, F., Boulton, W. R., & Carland, J. A. C. (1984). Differentiating entrepreneurs from small business owners: A conceptualization. *Academy of Management Review*, 9(2), 354–359.
- Carr, M., & Chen, M. A. (2001). *Globalization and the informal economy: How global trade and investment impact on the working poor*. Cambridge, MA: A WEIGO Publication.
- Cross, J. (2000). Street vendors, and post-modernity: Conflict and compromise in the global economy. *International Journal of Sociology and Social Policy*, 20(1/2), 29–51.
- Dasgupta, S., & Singh, A. (2005). Will services be the new engine of Indian economic growth? *Development and Change*, 36(6), 1035–1057.
- De Soto, H. (1993, September 11). The missing ingredient. *The Economist*, pp. 11–14.
- Gerxhani, K. (2004). The informal sector in developed and less developed countries: A literature survey. *Public Choice*, 120(3), 267–300.
- Gupta, A. K. (2006). From sink to source: The Honey Bee Network documents indigenous knowledge and innovations in India. *Innovations: Technology, Governance, Globalization*, 1(3), 49–66.
- Gurtoo, A. (2009). Policy support for informal sector entrepreneurship: Micro-enterprises in India. *Journal of Developmental Entrepreneurship*, 14(2), 181–194.
- Harris-White, B., & Sinha, A. (2007). *Trade liberalization and India's informal economy*. New Delhi/New York: Oxford University Press.
- Hart, K. (1973). Informal income opportunities and urban employment in Ghana. *The Journal of Modern African Studies*, 11(01), 61–89.

- Hill, E. (2001). Women in the Indian informal economy: Collective strategies for work life improvement and development. *Work, Employment and Society*, 15(3), 443–464.
- ILO. (2012). *Statistical update on employment in the informal economy*. Geneva: ILO—Department of Statistics.
- Jütting, J., Parlevliet, J., & Xenogiani, T. (2008). *Informal employment re-loaded* (Working paper No. 266). Paris: OECD Development Centre.
- Krishnan, R. T. (2010). *From jugaad to systematic innovation, the challenge for India*. Bangalore: Utpreraka Foundation.
- Leonard, D., & Swap, C. (1999). *When sparks fly: Harnessing the power of group creativity*. Boston: Harvard Business School Press.
- Maloney, W. F. (2004). Informality revisited. *World Development*, 32(7), 1159–1178.
- Manimala, M. J. (1992). Entrepreneurial innovation: Beyond Schumpeter. *Creativity and Innovation Management*, 1(1), 46–55.
- Piore, M. J., & Sabel, C. F. (1984). *The second industrial divide: Possibilities for prosperity*. New York: Basic Books.
- Portes, A., Castells, M., & Benton, L. A. (Eds.). (1989). *The informal economy: Studies in advanced and less developed countries*. Baltimore: Johns Hopkins University Press.
- Schumpeter, J. A. (1934). *The theory of economic development*. New York: McGraw Hill/Harper.
- Schumpeter, J. A. (1942). *Capitalism, socialism and democracy*. New York: McGraw Hill/Harper.
- Snyder, K. A. (2003). Working off the books: Patterns of informal market participation within New York's East village. *Sociological Inquiry*, 73(2), 284–308.
- Stebbins, R. A. (1982). Serious leisure: A conceptual statement. *The Pacific Sociological Review*, 25(2), 251–272.
- Swaminathan, M. (1991). *Understanding the 'informal sector': A survey* (WIDER working paper 95/1991). Helsinki: World Institute for Development Economics Research of the United Nations University.
- The Economist. (2010, September 10). Business in India: A bumpier but freer road.
- Trebilcock, A. (2005). *Decent work and the informal economy* (WIDER discussion papers, 2005/04). Helsinki: World Institute for Development Economics (UNU-WIDER).

- Williams, C. C. (2007). Entrepreneurs operating in the informal economy: Necessity or opportunity driven? *Journal of Small Business and Entrepreneurship*, 20(3), 309–319.
- Williams, C. C. (2008). Beyond necessity-driven versus opportunity-driven entrepreneurship a study of informal entrepreneurs in England, Russia and Ukraine. *The International Journal of Entrepreneurship and Innovation*, 9(3), 157–165.
- Williams, C. C., & Gurtoo, A. (2011). Evaluating women entrepreneurs in the informal sector: Some evidence from India. *Journal of Developmental Entrepreneurship*, 16(3), 351–369.
- Williams, C. C., & Nadin, S. (2010). Entrepreneurship and the informal economy: An overview. *Journal of Developmental Entrepreneurship*, 15(4), 361–378.