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Chapter

Informality and Entrepreneurship in Developing Economy: Case for Entrepreneurial Financing

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Abstract

Over a decade ago, scholars in different domains of knowledge such as strategic management, economics, accounting, and finance have largely contributed to the theoretical and empirical studies of entrepreneurial financing. However, bridging of the domains or the theories that underly the domains, and expanding the frontier of the phenomenon in the context of informal entrepreneurship, are missing in the literature. This paper attempts to conceptualise and problematise various issues that confront informal sector entrepreneurship in accessing adequate financing for start-up opportunity, innovative products, services and technology in the informal markets, and explore how the ambiguity of the diverse domains of knowledge of entrepreneurial financing could be resolved by unifying and integrating the domains within a unique framework. Equally, this paper also aims to provide theoretical contributions to the extant literature of entrepreneurial financing by suggesting how management accounting research can bridge the gaps of informality problems that confront informal entrepreneurial financing. There is no doubt that informal businesses are saddled with legitimacy concerns such as non-conformity with legality and institutionalised policies. Similarly, the sector is also confronted with the issues of information asymmetry, moral hazard conflict, informal financial and ownership structure. Nonetheless, the informal entrepreneurship sector unarguably has a relevance to the opportunity discovery and innovativeness dimensions of entrepreneurial orientation, with the consequence of positive contributions to the economy in terms of large-scale employment growth. Hence, the scholars in the accounting discipline can leverage on the emerging different financial technology and fund providers to expand the literature on how the untold hardships and complexity that surround the funding of informal entrepreneurial start-ups and innovation can be mitigated. Management accounting discipline, being an applied field of strategic management can play vital roles in mitigating the aforesaid problems of informal entrepreneurship funding, if it could focus on expanding the literature or methodology on goal congruence, information management and controls, financial contracting model, incentive modelling for regulatory policy and search and match model that focuses on informal entrepreneur, investors and financial intermediaries.

Keywords: informality, institutions, entrepreneurship, entrepreneurial financing, economy, innovation, opportunity

1. Introduction

Seeking and taking advantages of emerging entrepreneurial opportunities in a socio-economic environment that is saddled with volatility, shock, turbulence, munificence and disruption could be an arduous task for entrepreneurship to evolve, thrive, and grow the economy at a space and speed that are desirable for fast economic growth and development. The fact that entrepreneurship is both formal and informal makes such opportunity-seeking and advantage-taking to be diverse, complex and highly competitive.

Unarguably in the extant literature, entrepreneurship is considered an engine and a key driver of growth [1, 2]. However, this notion of entrepreneurship-driven growth is often downplayed in most of the developing economies [3], because the substantial part of their economies is largely informal [4]. This informality engenders entrepreneurship to be significantly influenced by the economic policies and institutional forces to the extent that emerging and localised innovative ideas and financing of such opportunities have become a critical interplay of the economic activities [5].

This paper aims at discussing gaps that were observed in the extant literature and empirical evidence relating to the entrepreneurial financing of the informal sector, and explores how the domain of accounting knowledge, specifically the management accounting field, could play a key role in advancing the frontier of informal entrepreneurship financing in the twenty-first century.

In this chapter, the key issues surrounding informal sector entrepreneurship are problematized while the emerging financial technology (FINTECH) and new outlets for funding existing and new business ventures, innovative products and technology are discussed alongside the potential impacts on informal entrepreneurship.

To navigate how the theoretical gaps could be closed, theoretical framework that demonstrates the linkages among different variables of the entrepreneurial phenomenon and charts the pathways to which the suggested contributions mitigate the financing bottlenecks of the informal entrepreneurship is conceptualised.

In conclusion, this paper has implications on accounting research both theoretically and in practice. First, it highlights core areas of management accounting that are relevant to the knowledge exposure of the entrepreneurial financing where fragmentation of theory and pragmatism have tended to limit the impacts of academic research on practitioners and impedes clarity of communication between theory and practice [6].

Second, where accounting profession can be more appreciated and be seen as co-pilots that drive standardisation and innovativeness of information management and tools that are relevant to entrepreneurial ventures in the informal sector, particularly in the developing or emerging economies.

2. Informal entrepreneurship and developing economy

2.1 Introduction

The informal sector of an economy depicts a channel through which unregulated but organised business endeavours take place among different stakeholders, particularly the people at the bottom of the pyramid in an environment that is characterised by poverty and inequality. The business activities within the sector are mostly transacted outside the boundary of government regulations but firmly reside within the confines of informal structures that are encapsulated in culture, norms, convention and rules [7].

The understanding of informal entrepreneurship is ambiguous and has diverse conceptualisation in the literature. This is because the insight into informality as

an economic unit, varies across scholars [8]. While some scholars see informality in the sense of legality, which denotes those informal businesses are compulsorily brought into being as a result of rigid and strict regulations, others see it under the lens of structuralists, as a “safe-haven” for those who could not find jobs in a formal structure of the economy.

Informality is also perceived under the purview of voluntarists as a “necessity-driven” avenue for seeking entrepreneurial opportunities when there is no hope in the formal sector. By whatever way we perceive the informality phenomenon, there is evidence that the informal entrepreneurship sector contributes positively to the growth and wealth of the economy, although in some cases, it also dilutes economic growth [4, 9].

2.2 Informal sector entrepreneurship and its economic impacts

Scholars continue to debate the extent to which numerous firms and individual actors in the informal economic environment impact growth of the economy, despite having a larger population of the economy engaged in trading, street vendors, public markets, subsistence farming and self-employment among other informal economic activities [9]. In this paper, informal entrepreneurship is viewed under the lens of opportunity discovery and innovativeness dimensions of entrepreneurial orientation.

An entrepreneurial opportunity was succinctly put as “situations *in which new goods, services, raw materials, markets and organisational methods can be introduced through the formation of new means, ends, or means-ends relationship*” [10]. The author argues further that although opportunities are discovered, the locus of changes in product, services, etc., sources of the opportunities regarding information asymmetry, demand and supply sides, the dichotomy of rent-seeking and productivity-enhancing, as well as the quality and influence of the change initiator, are of utmost importance.

The dimension of innovativeness, on the other hand, is characterised by a new product, new technology, new channel and new market that are unique and create differentiation advantage over the existing products, channels or markets [11].

Considering that there is a linkage between formal and informal entrepreneurship, it is apparent that such interconnectedness is an avenue for informal entrepreneurs to discover entrepreneurial opportunities to create new products, services or technologies. Moreover, the limitation of opportunities in the formal sector arising from over-regulation or excessive legal constraints can also become a source for entrepreneurial opportunities for the informal sector to explore and exploit [11].

Similarly, when a section of formal sector products or services is transitioned or outsourced to informal markets, this could inspire an entrepreneurial opportunity for informal entrepreneurs to exploit. However, it is argued that, rather than gaining from collaborative and mutual benefits of the formal-informal sector linkage, the informal sector is cannibalised by the formal sector which preys on the innovativeness of informality through free-riding and risk-shifting. Hence, the frugality of innovation tending towards a reconfiguration of informal sector opportunities and innovativeness to further the growth of the formal sector [12].

Notwithstanding the above, the question as to whether informality helps entrepreneurs to achieve firm growth still lingers, and if it does, how does the firm growth translate to economic growth? The main issue is that the informal sector has been seen in the shadow of the formal sector because of its lower productivity, less technology-driven, poor access to qualified or competent human capital, poor access to financial credit and out of formal institutional coverage [4, 13]. With these characteristics, the informal sector in the developing countries has not been

growing in tandem with the growth of the overall economy. It rather shrinks and gives ways to further development of the formal sector.

This position is supported by IMF Regional Economic Outlook (REO, 2017) which suggests that the productivity levels of informal firms are strictly lower than that of formal firms based on the real output per worker (*25% of small formal firms & 19% of medium-sized formal firms*).

In contrast to the widely held notion of the lower economic performance of informal sectors, some scholars have argued that informality did contribute positively to economic growth and has become a destination for the development of a country rather than continues as a journey. For instance, there was a finding that a strong positive correlation exists between informality and firm growth, and the probability of informal entrepreneurs achieving their set objectives is higher than the formal entrepreneurs achieving theirs [14].

The other positive areas of informality to economic growth in developing nations can be traced to trade and self-employment. Trade liberalisation has the consequence of spillovers of workers from the formal sector to the informal sector as a result of the drop in demand and supply of goods and services. This unabsorbed labour may then take a new opportunity or be self-employed [15, 16]. This situation plays crucial roles in the reallocation of resources to the informal sector, thus reducing apparent unemployment in the economy. Given the above, it can be concluded that informality has some positive correlations to the growth of the economy, particularly in sub-Saharan Africa which has the largest settlement of informal economic activities in the world.

To illustrate this with data, IMF Regional Economic Outlook shows that the informal economy in sub-Saharan Africa contributed between 25% and 65% to the Gross Domestic Product (GDP) of the region. The regional informality also accounts for 30–90% of the total employment in the non-agricultural sector, while the unweighted average share of the informal sector as a percentage of GDP between 2010 and 2014 was 38%, despite that informality is shrinking both in the region and globally [17].

2.3 Institutional forces, economic policies and informal entrepreneurship

The regulatory environment, economic policies and informal institutional forces of norms, conventions, etc., have significant influences on the choice, prevalence and performance of both informal and formal entrepreneurship. An empirical finding reveals that a unit (standard-deviation) increase in the quality of political and economic institutional roles could halve the rates of informal entrepreneurship, but double the rates of formal entrepreneurship [18].

This means that the degree to which the informal sector is impacted by the vagaries of government regulations and policies is much more than that of the formal sector. It is these economic and political-institutional forces that confer advantages of legitimacy to firms in the formal sector which in turns skew the allocation of entrepreneurial efforts and resources towards formality. This is understandable since informal firms and individual actors within the sector operate outside the confines of formal business laws, rules and property rights protection. The caveat is that some of these formal legitimacies carry the implications of disincentives to capital accumulation and investment in the informal sector.

However, informal firms leverage on the social legitimacy confers on them by their stakeholders including government authority. Social legitimacy is governed by norms, values, conventions and beliefs that are prevalent in the environment and make informal firms and individual actors within the environment to be legitimate in dealings with their customers, suppliers and other stakeholders [7, 14].

In most developing nations, the drives and quests for revenue mobilisation have made some relevant government authorities extend the hand of regulation to the informal sector in some spheres of informal trade activities. For instance, in Nigeria, state and local government have mandates of local taxes, operational licences, environmental pollution controls for organised informal markets, which are enforced through umbrella associations and leaders of the market communities.

Regardless of the issue of legitimacy and regulation, what matters most in the institutional framework of the informal sector is the interconnectedness of formal and informal entrepreneurship, and how well or otherwise does the regulatory and policy environment support or impede the progress of informality in terms of opportunity discovery and innovativeness. First, the quality and efficiency of government regulations and policy, determine the choice, size and prevalence of formal or informal entrepreneurship.

Most important are the tax regimes, credit policies and property rights protection. Many undifferentiated government policies and actions between the two sectors in form of taxes, revenue mobilisation, environmental pollution, financial credits, property rights and labour laws are hostile to informal entrepreneurial firms and are gradually used to exiting them from the economy, although informal firms also define structural and political clout of the economy.

Second, the perception of 'all-inclusive' or 'frugal' innovation in the linkage between formal and informal economies, particularly in developing countries has been argued by some scholars that rather than promoting and rewarding informal entrepreneurs for their innovative and collaborative endeavours, the relationship of formal and informal firms tends to suppress and cannibalise the informal sector for the profit motives and institutional gains of the formal sector. Meaning that firms in the formal sector simply take the existing routine innovation in the informal markets and scale it up, thus formalising what is already informal through free riding, by-passing and risk-shifting [12].

Third, the institutional linkage that binds informal and formal entrepreneurship also implies information asymmetry and networking. Informal firms leverage occupational and social networking when seeking an opportunity for innovative ideas, new products, technology advancement, and when regulating the behaviours of the individual actors within the sector [19]. On the other hand, formal firms substantially rely on changes in laws, regulations, policies and a few open-channel information to guide their legitimate economic activities. The resulting information asymmetry and superior social networking on the part of informal firms often create unfair competition for the firms operating in the same market.

Lastly, contentious issues of product counterfeiting and passing-off on the part of informal entrepreneurs tend to further the illegitimacy concerns of the informal sector. However, in some cases, counterfeit products are socially acceptable in the informal market as a result of exorbitant prices on similar products, or simply to fill the gaps in the market [7]. Nonetheless, in the institutional relationship between the two sectors, criminal and illegitimate activities of some of the informal firms should be viewed separately within the linkage and do not make informality illegal in the entire economy.

3. Financing of informal entrepreneurship sector

3.1 Traditional financing of business venture and impacts on informal entrepreneurship

The traditional roles of financial intermediary in nurturing and promoting new business creation and innovation are fast changing in the modern entrepreneurial

economy. Consequent to this changing dynamic is that venture capitalist, angel investor, commercial and investment banking are confronted with globalisation and technological disruption. Similar to this situation is the increasing trend of local venture capitalist and entrepreneurship philanthropist as a modern-day angel investor who is financially promoting local business ideas through their foundation platforms. Hence, the need for greater focus on the evolving roles of financial intermediaries and their linkage to the financial and ownership structure of the entrepreneurs, as major determinants for innovation and firm growth [20].

It is, therefore, no gainsaying that emerging entrepreneurs from either formal or informal sector are becoming viable sources for new business and job creation, new product and technology that will lead to productivity growth. However, the major constraint in fostering these economic growth-enhancing activities is the difficulty in accessing appropriate financial resources for innovative endeavours.

The focal area in this paper centres on the sourcing and process of financing informal sector entrepreneurial opportunity and innovation, since the actors in this sector are largely unregulated within the ambit of formal sector financial institutions. Their ownership and financial structure are also non-conforming with the formal contractual obligations and property rights framework. These then pose some questions regarding; (i) the ideal financial outlets to raise funds for innovative products, services and technology, (ii) effectiveness of financial intermediation to support informal firms within the financial industry to raise funds critical to financing a new business, products, and (iii) the conditionalities for accessing funds in terms of financial and ownership structure.

These questions and more, deserve scholastic attention to expand the frontier of informal sector financing [21]. Nevertheless, there has been some coverage of this issue in the literature, albeit not specific to informal entrepreneurship [22, 23].

The process of raising funds by informal entrepreneurs to finance novel ideas, create new business, new product, innovate or renovate technology and process, has not only been complex but also difficult. Stemming from inadequate or lack of internal cash flows and prominently, lack of adequate collaterals, asymmetric information, agency problems, most of the entrepreneurial projects in the informal entrepreneurship sector usually die on arrival.

Notwithstanding, informal entrepreneurs have the privilege of accessing financial resources from traditional channels either internally or externally. Internal traditional sources such as accumulated savings, retained reserves, business assistance or inheritance from families, and loans from friends. On the external traditional sources, bank loans, microfinancing, and cooperative loans are options. In most cases, internalised funding options are unarguably inadequate for funding serious innovation, hence there are needs for alternative sources [24, 25].

3.2 Emerging trend of financial technology (FINTECH) and alternative fund providers

In recent times, new channels and platforms of entrepreneurial financing have emerged. These new avenues are necessitated by the inadequacy of supply side market for funding entrepreneurship, and are expected to mitigate funding barriers and fill the gaps of the dwindling financial intermediation [21].

The shortcomings of informal borrowing and bank lending to the entrepreneurial opportunity and innovation, have culminated in investors turning to angel investor network and venture capital for equity capital contributions. However, due to some limitations leading to adverse selection and credit rationing, new channels of entrepreneurial financing such as crowdfunding, accelerator and incubators,

specialised seed funding and government venture funding have emerged in the financial industry [21, 25–27].

Angel investors are rich individuals who take interest to fund innovation projects with their personal wealth and expertise. They usually focus on the start-up and early-stage innovation and remain passive in the entrepreneurship structure. This source of fund is seen as a second call, when bank loans and other traditional financing fail. On the other hand, venture capital is an intermediated source of capital that is raised from set of limited investors for an early-stage or seed phase innovation projects of young entrepreneurs. It is equity finance capital with the objective of earning returns on the investment for the investors. Venture capitalists are active in the in the entrepreneurial innovation to add value, but with temporary ownership structure.

As a result of funding gaps that continue to exist regardless of robust angel investor and venture capital financing, crowdfunding platform has emerged as a big disruptor in the venture financing market. Crowdfunding allows for direct on-line mobilisation of funds for entrepreneurial and innovation projects, particularly the ones at the early-stage, from clusters of small investors (equity crowdfunding) or from group of potential consumers of the project (reward-based crowdfunding). This channel is a disintermediated finance source of small investors with no standard financial intermediaries. What makes crowdfunding successful are strong network of personal investors, underlying quality of the entrepreneurial projects and geography of the entrepreneurship [28].

There are also accelerators and incubators funding channels which focus on gathering network and mentors for the entrepreneurship innovation. These channels are cohort-based funding supports that also provide financing in exchange for equity [25]. Although, the aforementioned financing options are induced by supply-push factors, however, with some shortcomings in the financial industry, government intervention in funding entrepreneurship innovation has become a response to a demand-pull factor of technology transfer [27]. Some countries are coming out to support new business creation, innovation and corporate venturing by direct intervention of venture funding through relevant agencies, while others are supporting the financial industry with tax and other public investment policies to mitigate prevalent bottlenecks between the investors and the entrepreneurs.

Conversely, the challenge is how the informal sector could explore these new alternative sources of funds to support its emerging inventions, innovations, and other entrepreneurial opportunity discovery in the sector. The issue of legitimacy, informal ownership and financial structure do not position informal entrepreneurship appropriately to benefit from venture capitalist. However, crowdfunding and angel investor network can be of immense benefits to the potential entrepreneurs in the informal sector.

4. Review of literature

In the extant literature of entrepreneurial financing, no significant work has yet been done on the peculiarity of informal sector entrepreneurship funding. This apparent gap could be attributed to the afore-mentioned agency problems of information asymmetry and moral hazard, lack of formal financial contract agreement, ambiguous ownership and financial structure, and the issue of legitimacy. It follows that the informal sector entrepreneurship has long been stigmatised with these problems. However, the terrain of financing entrepreneurial opportunity and innovation is not so different for formal and informal entrepreneurs, particularly for new business creation, opaque firms, and young entrepreneurship. Therefore,

the streams of funds emanating from the traditional bank loans and trade credits, informal loan from friends and families, coupled with the emergence of alternative sources such as angel investor network, venture capital, crowdfunding, accelerator financing and specialised venture capital, can no longer be overemphasised in the emerging financial markets and technologies [21, 26].

In this regard, scholars are expected to position the phenomenon of entrepreneurial financing in the literature as an important link between entrepreneurial opportunity and economic growth of which the informal sector is paramount. Unfortunately, the literature of finance, strategic management and accounting are yet to fully extend the informality perspective into the theory of finance. Hence, the necessity to integrate into the theory of financing, those gaps associated with the informal entrepreneurship sector in order to bridge the theoretical laxity.

First and foremost, the issue of information asymmetry as a principal-agent problem between two related parties has largely been stressed in some literature [29–32]. However, little has been done to extend this notion of agency theory to the relationship between entrepreneurial firms and potential investors [21], particularly in the area of informal entrepreneurship-investor nexus. This issue which is profound in the informal market suggests that the entrepreneurs are likely to hold or hide vital information from the knowledge of potential investors when seeking for external funds [33]. This attitude is usually as a result of fear that competitors or rivals might take undue advantages of the innovative ideas or products, hence the reluctance of the entrepreneurs to divulge the core information of such innovation to the potential investors [34].

Aside the withholding or divulging of vital information by the entrepreneurs, the other dark side of informational asymmetry that create gaps in the financing of informal entrepreneurial opportunities is the failure to provide good track of business records and the commitment to business acumen and demonstration of credit worthiness. In this situation, the cost of screening or ascertaining credible information on the history of business endeavours in the informal sector which is considered opaque by investors, is usually prohibitive [24]. Moreover, the opacity of the informal firms dictates the financing strategy and tactics that may be employed by the potential investors [25]. This is because some of the new and young firms, particularly the informal ones have no track records, either with suppliers, customers, lending institutions and other stakeholders.

The second agency related issue that contributes to the financing gap of informal entrepreneurship is the moral hazard conflict. In this instance, informal entrepreneurs might misallocate funds raised from investors and utilise same for their benefits rather than for mutual benefits which was the original purpose of financing [23]. In the extant literature, moral hazard is simply referred to as ‘shirking’ of responsibility by an agent in a principal-agent relationship [32], meaning that the agent has not effectively render his efforts as agreed in the relationship. It has also been argued that moral hazard conflict stems from the fact that investors often lack the ability to fully incentivise the information asymmetries of the entrepreneurs [35]. For instance, dispersed investors like crowdfunding providers or angel investor network might not have the capacity to monitor or coordinate the activities of the investors to identify manifestations of moral hazard. Thus, goal-congruence is lacking between the potential investor and informal entrepreneurs where the entrepreneurs may disregard the interests of the potential investors [21].

Although, assumptions of self-interest, bounded rationality, risk aversion and information asymmetry play key roles as precursors to agency problems in the relationship between the agent and his principal, the fact that the two parties have different and divergent interests often leads to goal incongruency and once this issue manifests, necessary governance mechanisms and incentives need to be put in place to mitigate the problems [36].

The other fundamental issues facing the informal entrepreneurship sector in raising adequate funding is the lack of formalised financial contract agreement and the high probability of enforcement failure. Contractual relationship between the informal entrepreneurs and potential investors are substantially informal and relational, meaning that the variability by the third party such as court or arbitration, is absent, often lacks rigours, ambiguous, and such contract agreement suffers from incompleteness or holding-up which could result in 'arm-twisting' between the entrepreneurs and the investors [20, 37, 38].

Although, many informal firms and individual actors are organised to some extent, as some of them belong to umbrella associations or recognised professions, nonetheless, the financial contract existing in this environment is largely relational and as such, does not guarantee establishing an appropriate financial contract and agreement within the sector. Moreover, the transactional costs and enforcement are prominent issues surrounding informal contracts. It is costly to establish and enforce informal contract agreements because of the failure to provide adequate and convincing evidences of the breach of contract before the courts or arbitration [37].

In most of the literature on entrepreneurial financing and particularly, the financial contracting between investors and entrepreneurs, the issues that stand out are, the finding of equilibrium in the shared risks among the contracting parties, incentives to mitigate incongruency at the early stage of entrepreneurial opportunity and innovation, and enforcement of financial contractual agreement. Therefore, the quest for investors' robustness on financing decisions, either in the anticipation or against the potential information asymmetry, inexperience or moral hazard conflict of the entrepreneurs has become very important element in the financial contract agreement and transactional costs for informal entrepreneurial opportunities [39].

Most importantly is the enforcement of the contractual agreement. The dichotomy between weak and strong enforcement is significant in determining the default rate of entrepreneurial finance made available by investors. Thus, the supply of funds by investors and the ability to repay by the entrepreneurs are determinants to the enforcement resources available to the investors [40].

Similarly, the nature of ownership structure of most informal firms is either family-oriented or sole actors which do not necessarily have formal organisational structure, standardised financial bookkeeping and financial disclosure, robust financial planning and controls. The absence of these structures can lead to 'cognitive bias' in making financing decisions from both the entrepreneurs and the investors [26]. To illustrate, informal entrepreneurs depend much more on cognitive bias to appeal to investors to fund their entrepreneurial opportunities, regardless of their structure, the amount and accuracy of information they disclose.

In fact, the cognitive bias carries different levels of persuasion and risk mitigation towards entrepreneurial financing. In the literature, cognitive bias is conceptualised in the context of 'perception and reasoning' errors that could influence judgement and decision-making to deviate from the normative rationality [41]. Unlike in the formal sector, informal entrepreneurial intents, opportunity discovery and innovation are shrouded in cognitive bias than in organisational structure and standardised financial disclosure.

Equally, it is very important to note that 'mental accounting' bias also play prominent roles on how informal entrepreneurs keep and present their financial records for the purpose of seeking funds from investor or for any other requirements [42]. This follows that the entrepreneurs organise, process, keep, and report their accounting records based on variety of criteria that are mostly subjective.

Finally, the policy and regulatory environment that informal entrepreneurship sector resides and share with the formal sector is also one of the determining factors that constrain easy funding accessibility to informal entrepreneurs and often pose

some disincentives for the entrepreneurial firms and the investors to take calculative risks. Although, it is argued that non-conformity with the institutionalised policies and regulations of taxes, financial credit facility, compliance, etc., deprive informal entrepreneurship sector of some of the privileges of legitimacy accorded to the formal sector, however the same environment has helped informal entrepreneurs with the emergence of various financing outlets and technology that are specific to informal debt financing [43].

In the developing economies, microfinancing, cooperative societies, 'esusu' group contributions and lending and on-line loan facility are the new financing opportunities that are reshaping the informal sector entrepreneurship. This attests to the fact that the traditions, rules and conventions that govern the financing of informal entrepreneurship opportunity could be moderated by the formal institutional policy and regulation [44]. Nevertheless, regulative and policy incentives are also part of the environmental variables that can influence the opportunity and innovation of informal entrepreneurship, create a favourable climate for enhancing productive relationship between investors and the entrepreneurs and also create avenues to ease information asymmetry and incongruity of interests in the informal sector [45].

5. Conceptual model and propositions

Having discussed and problematised the phenomena of informality and entrepreneurial financing in the developing economy, this paper further attempts to expand the domains of entrepreneurship and accounting by developing a theoretical model that conceptualises the interconnectedness among informal entrepreneurship, institutional environment that constrain the legitimacy of informal entrepreneurship, entrepreneurial financing together with bottlenecks arising from informality and the potential contributions to the conceptual and theoretical framework of financing (Figure 1).

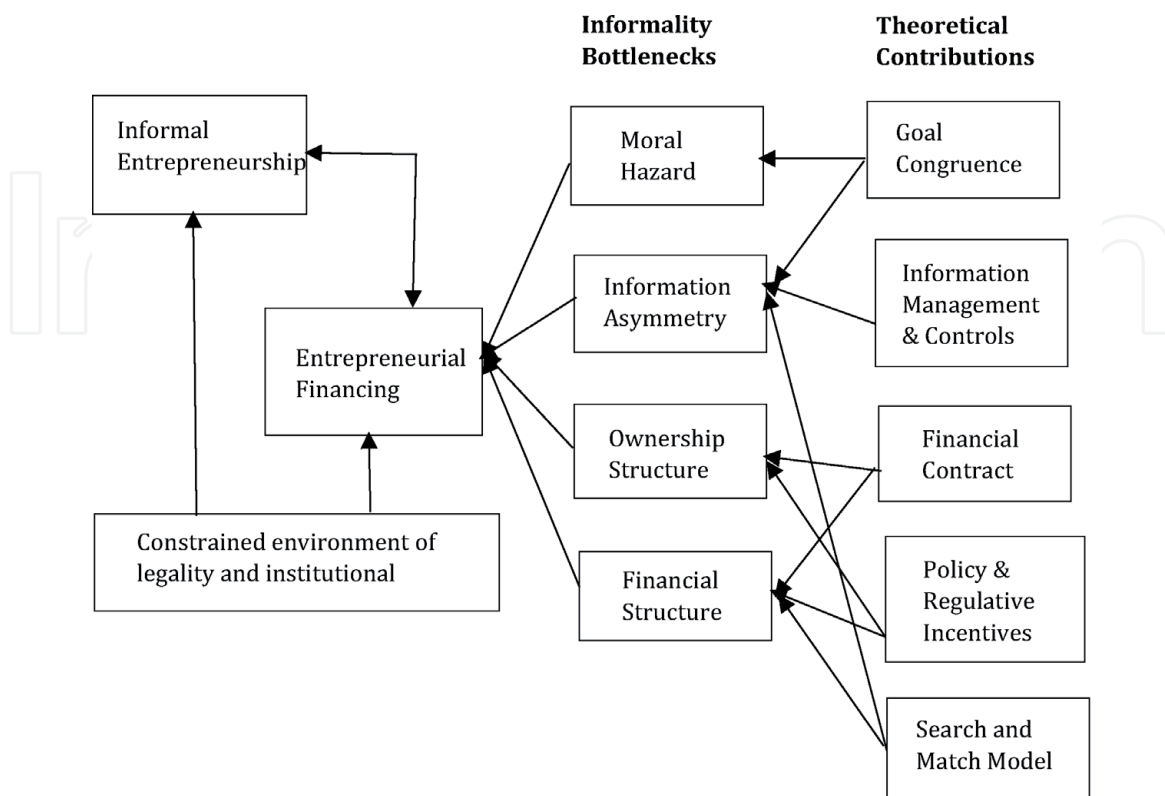


Figure 1. Conceptual model of informal entrepreneurship financing. Source: Author's adaptation, 2021.

This model has implications for the theoretical underpinning of strategic management, finance and accounting disciplines and exposes agency theory, resource-based theory, transaction cost theory, financial contracting theory and new institutional theory as relevant underlying theories. However, the context of this paper delimits elucidation and amplification of these theories.

The potential theoretical contributions to the literature are limited to the discipline of accounting, and specifically to the management accounting research which is perceived as an applied and quantitative study of strategic management, and belongs to 'method theory' rather than 'domain theory' [27]. In essence, management accounting research is regarded as an interventionist research area that could be explored to demonstrate the practicability of some theoretical postulations of entrepreneurial financing in the informal sector of an economy.

This thought process has two consequences. First, the bridging of entrepreneurship and finance domains in the context of informal entrepreneurial financing. Consequently, the underlying but diverse theories would also be unified into a single and augmented scholastic platform. Second, accounting practitioners, knowledgeable entrepreneurs, and policy makers can leverage on the knowledge enhancement in form of management accounting information and tools to further the practice that will develop the accounting profession and also inform appropriate policies for enhancing informal entrepreneurship in the developing economies.

5.1 Conceptualisation of the model

Informal entrepreneurship is conceptualised into two-fold; the entrepreneurial opportunity and innovativeness emerging from informal sector of the economy. Entrepreneurial opportunity is expressed in terms of recognition and motivation of intents and can be geared towards search or alertness, meaning that potential informal entrepreneur can desire (i.e., to create) or notice (i.e., to discover) opportunity to innovate product, process or service in the informal market. In this context, opportunity can be operationalised in terms of (i) percentage of the unemployed population that recognises start-up of new business, and (ii) percentage informal business activity initiated because of opportunity start-up motive.

Innovativeness refers to innovative ideas and projects that culminate in the newness of product, process, technology amidst competitive brands and varieties in both the formal and informal markets. Innovation can be radical (i.e., completely new) or can be incremental (i.e., renovated). Operationalisation of innovativeness can take the form of (i) number of new products in the market, (ii) number of renovated products in the market, (iii) new technology in the market and (iii) new informal market in the economy.

Both the opportunity discovery and innovativeness exist in the informal environment which is influenced or moderated by institutional policies, regulations and informal rules, conventions and shared values. Although, informality as an environment may be difficult and ambiguous to measure because it is largely seen as a shadow economic unit with the prevalence of numerous informal activities such as small firms trading including street-trading, subsistence farming and agricultural occupation, self-employment, it nevertheless comprises of organised sectors of artisans, technicians, professionals, transporters of goods and persons that are grouped into household businesses and non-wage workers.

It follows that the informal environment has a relationship with the entrepreneurial opportunity and innovativeness respectively. This linkage could therefore establish whether informal firms drive the discovery of entrepreneurial opportunities and innovativeness in the informal markets amidst the disruption in the entire economy.

The interlinkage between the environment and the informal entrepreneurship leads to the emergence on how the new products, technology and process are being financed and brought into the market. Entrepreneurial financing in the context of the informal sector is conceptualised as the process of seeking for and raising appropriate financing for business start-up, renovating new products or technological process and the expansion of capacity that is driven by product and technological innovation. This process runs through informal lending outlets such as borrowing from family, friends, savings, or through financial intermediary such as banks, cooperative societies, microfinance institutions or through the emerging new investment platforms such as crowdfunding, corporate venture, angel investor, accelerators and government specialist financing.

The next phase of the model shows that the paths to seek for fund providers and source appropriate finance for informal entrepreneurial opportunity and innovation are clogged with bottlenecks. Unlike formal entrepreneurial firms, in formal entrepreneurs are faced with informality-specific bottlenecks which are; information asymmetry, moral hazard conflict, ambiguous and unformalized financial contract agreement that is laden with enforcement problems, informal ownership structure and unstandardised financial structure, and mental accounting bias.

In the last phase of the conceptual model, redress propositions in form of contributions to the theory, are made to address the financing bottlenecks in the informal entrepreneurship sector. These contributions are contingent on the frontiers of management accounting research, considering similar theoretical propositions from other disciplines such as finance, economics, strategic management. The contributions to the theory and practice are linked to the relevant bottlenecks that should be addressed in the flow accordingly. For instance, the theoretical expansion envisaged on goal congruence is focused on the agency problems of moral hazard conflict and information asymmetry. Similarly, information management and controls, search and match model are also expected to hinge on the issue of information asymmetry.

The problems of ownership structure would be addressed by the enhancement of management accounting literature in the areas of financial contract agreement and policy and regulative incentives, while the issue of the informal financial structure would be addressed via the expanded theory of the financial contract agreement, search and match model and policy and regulative incentives.

6. Implications for management accounting research

6.1 Contributions to theory and quest for further study

Management accounting is considered a purely applied discipline of strategic management. Hence, it is believed that its relevance and intervention in the issues of entrepreneurial orientation and entrepreneurial financing in the informal sector of the economy is prominent.

In the views of some scholars, management accounting research carries a dichotomy of roles in theory. While some scholars are of the view that management accounting being a pure applied field, can only adapt or import theories from other disciplines to use in its research, others believe that the field is distinct, and has its own sets of theories [46]. In my view, these two roles are indistinguishable.

Further, management accounting has often been challenged for not doing enough in providing practical solutions to some theoretical or conceptual issues which are fundamental in expanding the knowledge of the field [6, 28]. Thus, it is important to know how accounting research situates in the realms of knowledge and examine how it intervenes in the research theories of other domains.

In the context of management accounting research, this paper contributes in multiple fold to the literature and theories that underly the phenomenon of entrepreneurial financing by identifying how the bottlenecks of information asymmetry, moral hazard conflict, ownership and financial structure hampering informal entrepreneurship could be bridged.

First, the issue of moral hazard conflict is an agency problem, and could be further theorised using the concept of Goal Congruence. This means that the extant theory of agency should be extended to 'goals model' which emphasises the congruency of goals between two or more contrasting parties. In other word, the theory of agency should be expanded to harness the nexus of informal entrepreneurship and financing. Normally, incentives management are employed in resolving goal congruency issues between agent and his principal, but in the context of entrepreneur and investor relationship, resolution should start with modelling of the interests and goals of informal entrepreneurs and investors, after which the two goals are harnessed to anticipate reduction in monitoring cost, reduce bad investment decisions and mitigate impacts of individual opportunism.

The goal congruency modelling should be able to differentiate ostensible and actual goal congruence, whilst proffering different views of congruency that can harmonise common goals and mutual benefits regarding the funding of entrepreneurial opportunities and innovativeness in the informal sector of the economy. In designing the goal model, cooperative behaviours, consensus and control mechanism should all be embedded in order to derive economic benefits of the goal congruency [47].

Second, the problem of information asymmetry could be theoretically salvaged through accounting information management and control, search and match model, and goal congruence. In the nexus of entrepreneurship and financing, information asymmetry occurs when the relevant oversight by investors who normally finance informal entrepreneurial opportunities and innovation is mostly lacking [48]. For instance, angel investors, crowdfunding investors, traditional fund providers like banks, etc. are mostly passive in the management of the entrepreneurship projects, coupled with lack of standardised information systems in the informal sector.

Likewise, the possibility of informal firms concealing vital information to his advantage which is hidden to the potential investor, or the same behaviour posed by investor [23]. These two issues are common in the informal entrepreneurship and financing nexus and contribute to information asymmetry in the financial industry.

Management accounting research will add value to the theory of organisation when it focuses on the design of 'combined control mechanism' that encompasses both behavioural and information systems management and control [49], and to the theory of contingency, when the contingent nature of accounting and management information in the constantly changing environment of financing is explored and included as an additive package to the combined information system mechanism [50]. Management accounting research needs to adapt the model of contingency to the disruptive environment of financial industry, focusing on the prevalence of funding outlets, platforms and providers which are dynamic, to help informal entrepreneurs and investors share and match relevant information which enable both parties to derive economic benefits of standardised accounting and management information.

Similarly, feedback control should also be embedded in the overall management information mechanism to give prominence to 'cognitive dissonance' in the relationship between informal entrepreneurship and entrepreneurial financing. The feedback control should be designed to guard against either of the party hiding information for selfish tendency and to achieve goal congruence, since there is

inherent control weakness in the human interaction system between the informal entrepreneurs who are likely to be dominant in information retention and the potential investors who exploit such information are also passive in the relationship.

Cognitive dissonance implies that a party in the relationship agree with and accommodate information, data and reports that is favourable to his position while discerning the ones at variance with his position. In the process, factual information that is vital to make decisions that could be of mutual benefits to the contractual parties are withheld or grossly be absent. Thus, the antecedents and consequence of cognitive biases in an informal setting of entrepreneurial financing in the twenty-first century, should provide both the informal entrepreneurs and investors with adequate and open information that reflects the symmetry of information that is persuasive of good decision making.

On the other hand, accounting scholars can also theoretically bridge the gap of information asymmetry in the relationship between informal entrepreneur-investor relationship, by leveraging on the extant theoretical work on the search cost model and extend it to the '*search and match*' model in the relationship between informal entrepreneurs and potential investors and with the view of enhancing information symmetry and financial contracting between the two parties. Therefore, management accounting models and tools can effectively be deployed in similarity with the model of search and matching [51].

With the advent of Fintech and a variety of new financing instruments, the cost of searching and accessing investors for promising entrepreneurial opportunity and innovation in the informal sector of the economy are fast becoming a concern for informal firms and individual actors within the sector. It follows that search and match model is a valuation tool used in calibrating and matching of demand and supply forces of labour market [52]. Normatively, search and match tool is designed to exploit wealth of information between two contrasting parties (i.e., employer and employee groups) in response to a change in environmental variable and market friction (i.e., job opening requirements or policy changes). Further, it is an estimating tool designed to provide behavioural responses to the employment issues confronting the labour market [53].

In the context of search and matching model, management accounting research needs to extend the model to bridge the gaps of information asymmetry and financial structure in the relationship of informal entrepreneurship and financing. Quantitative calibration, using empirical data appropriate to the relationship such as background data of informal entrepreneurs and investors, parameters for choice of funds, geographical consideration in terms of financing outlets and providers, cost of search, intermediation cost, cost of fund, forecast data on innovation projects, etc., should be factored in the model calibration.

The third implication centres on the inadequacy of financial contracting in the informal entrepreneurship sector, and its consequential effects on the financial and ownership structures. The underlying theory is the transaction cost and contract. Unlike the formal sectors where contractual agreement, financial and ownership structure are formalised and registered in line with some institutionalised directions, informal firms and individual actors within the informal sector are naturally outside such coverage of legality and formal institutional environment. However, the illegitimacy arising from this externality to informal entrepreneurship could be addressed with two accounting tools.

First, the melding of financial models that aim to put informality around the boundary of formality. In this instance, the financial modelling should encompass financial lending, a structure-oriented funding sources and investor-compliance ownership structure. Second, informal incentive contract model should be explored in quantitative terms to evaluate and analyse the standardised setting of

the entrepreneur-investor relationship in the context of informal sector. In this instance, the incentive model should be designed to induce the entrepreneurial opportunity and innovation towards acceptability by potential investors based on predetermined criteria that include unhindered flow of information, remediation, and arbitration process amidst other consideration.

Overall financing contract model should reflect a valid intermediation role and also have the capability to serve as a robust check on the internal logic of decision making and controls for the informal sector entrepreneurship which consequently should assist in standardising bookkeeping, accounting records, budgetary controls and management information system.

6.2 Contributions to accounting practice

One of the implications of this paper is the dematerialisation of the impacts that some regulatory policy has on the informality of entrepreneurship and financing. Management accounting research should expand its frontier to accommodate studies on economic incentives of regulatory policy that is peculiar to informal markets. In this respect, management accounting research should explore the designs and qualitative analysis for tailor-made economic incentive model that brings informal markets closer to the border of formalities and regulatory framework and which can also avail informal entrepreneurs with some of the benefits that formal firms do enjoy, particularly in the areas of taxes, registration and compliance. Such an incentive model should provide governance authority with constructive directions for taking policy decisions, enhance entrepreneurship blueprint and good advocacy for standardised information system for informal entrepreneurship rather than an accounting model.

7. Delimitation

In this paper, the focus is mainly on the domains of observation and their relationships. That means, the domains of entrepreneurship, finance and accounting. The underlying theories of agency, new institutions, financial contract, transaction costs are not explored, but are justified as the basis for theoretical expansion.

In the same way, the proposed focus for expanding the frontiers of entrepreneurial financing is hinged on the management accounting research instead of multiple disciplines such as finance, economics and strategic management. This intentional focus is to explore the interventionist research agenda of management accounting, being the perceived applied strategic management study. It is also to re-awaken accounting practitioners of their vital roles in the knowledge building of entrepreneurship studies, using accounting information controls and tools.

8. Conclusion

Informality in the setting of the entrepreneurial economy in developing countries connotes that, informal firms and individual actors within the informal sector do not add significant values to the economy as much as formal firms add, irrespective of the fact that the informal sector employs large numbers of workers and also harness much bigger resources in the value chain of the economy.

Notwithstanding, entrepreneurship opportunity and innovativeness dimensions of entrepreneurial orientation have relevance in the informal sector entrepreneurship, but with the constraints of sourcing and accessing adequate financial

resources to fund innovative products, services and new localised technology in the informal markets.

The apparent emergence of financial technology platforms (FINTECH) and new sources of funding, such as crowdfunding, accelerators and incubators are alternative complements to the traditional and informal financing outlets of bank loans, family and friends, as well as angel investor network, venture capital and government venture fund. The new alternative sources are also filling the gaps for considering small firms and start-ups financing, albeit with no visible informal projects in the envelopes. Nevertheless, the on-line provision of capital funds for entrepreneurship has been enormous.

In the informal sector, an opportunity to take advantage of such new sources to close funding gaps are usually marred by the lack of collaterals, poor accounting records, illegitimacy concerns of no formal registration, tax avoidance, no formal contracting and non-coverage of institutionalised policies. These concerns also extend to the issues of information asymmetry, moral hazard, financial and ownership structure.

In an attempt to reposition the understanding of informality in the context of entrepreneurship and financing, and to expand the frontiers of strategic management and accounting literature, this paper suggests that management accounting research could play vital roles in further exploring the problematised issues of entrepreneurial informality and financing by bridging the domains of accounting, finance and entrepreneurship. In this arena, five areas for theoretical contributions were highlighted as, goal congruence, accounting and management information controls, financing contract modelling, regulative policy incentives and search and matching model.

Theoretical model that conceptualises interrelationship among different variables with their underlying theories was proposed. The model demonstrates that informal entrepreneurship has opportunity discovery and innovativeness as antecedents of entrepreneurial orientation. The informal entrepreneurs operate in an institutionalised environment where regulation, policies, culture, traditions and shared values play prominent roles. In this institutionalised environment, it is contingent for the informal entrepreneurs to seek for funds to finance their innovative products, process or technology. There are diverse sources and platforms in the financial industry for the choice either direct or through financial intermediation. However, there many bottlenecks confronting informal entrepreneurship innovation in accessing appropriate and adequate funding.

In this paper, management accounting research is focused to explore various management information systems, models and tools to bridge the theoretical gaps, while also focuses on economic incentives for regulative policy to address gap in policy making concerning informal entrepreneurship sector. The justification for the choice of management accounting research is to position the literature to contribute and expand the frontiers of agency theory, contingency theory, organisational theory, transaction cost theory, financial contracting theory and the model of search and match, all of which underly the highlighted bottlenecks of the informal sector financing.

The other cogent reason is that, management accounting is positioned in between the paradigms of positivism and interpretivism, however, the focus is more on the ontology, epistemology and methodology of interpretivist paradigm, simply because of the social science nature of the discipline rather than considering it as a pure natural science which confers positivist paradigm [54]. While positivism is a scientific paradigm and focus on a realistic natural phenomenon that is independent of the researcher, the interpretivist paradigm is subjective, it focuses on relativism where meanings to objects are discovered and constructed through interaction between researcher conscience and the real world [55].

The knowledge realm of management accounting research is also informed by inductive reasoning for analysing and evaluating qualitative data that will produce reliability and validity of findings [56]. It therefore follows that the perspectives of management accounting research are dynamic and has metamorphosed from just number analysis to qualitative and quantitative decision making and human interaction facilitator [57]. There are instances where management accounting has influenced entrepreneurship studies adopting inductive and qualitative approach such as case studies, interviews, focus groups, etc. Moreover, management accounting has also been found as an important resource and capability for international entrepreneurship and assumes effectuation and causality logic [58]. In these instances, this paper suggests that the theoretical contributions highlighted can be taken through qualitative or quantitative methodology as each case may warrant.

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