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FACTORS THAT DETERMINE THE FORMAL ENTREPRENEURSHIP OF YOUNG ENTREPRENEURS IN A DEVELOPING COUNTRY DURING A PANDEMIC: PERUVIAN CASE

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ABSTRACT

Although informal entrepreneurship helps create jobs, stimulates innovation and reduces inequality; This type of entrepreneurship generates tax evasion, low wages, poor working conditions, low productivity and low economic growth, so the objective of this study was to determine the factors that determine formal entrepreneurship in young entrepreneurs. conducted a study at a private university in Lima, surveying business students. A non-probability sampling was applied for convenience, since the students participated voluntarily. The sample consisted of 809 business students who answered a questionnaire online hosted on Google form. The data were analyzed with the ANOVA, Pearson and Rho Speraman statistics according to the normality of the data. The results show that there are factors that are related to the formal entrepreneurship of young entrepreneurs, such as: gender, formalization procedures, bank loans, loans from lenders, government programs, the pandemic, the conditions of the entrepreneurship, the experience of the company and the initial investment. This study has theoretical and practical implications since it allows us to know the factors that can be useful to promote formal entrepreneurship from both the public and private sectors.

Keywords: Entrepreneurship, Informality, Youth Entrepreneurship, Formal Economy

INTRODUCTION

The growth of informal entrepreneurship is a recurring problem in many developing countries. According to a World Bank report, the informal sector represents around a third of GDP and more than 70% of employment (self-employment in more than 50%), with informal workers, mainly women and young people who have lost their jobs and/or They have no income due to the Covid-19 crisis. On the other hand, the report highlights four main consequences associated with the informality of companies: limited access to financing, lower labor productivity, greater income inequality and poverty, and slow progress in achieving the Sustainable Development Goals (World Bank, 2021).

Microentrepreneurs in developing countries are entrepreneurs by survival (Oppdal & Garcia, 2020), according to the GEM (Global Entrepreneurship Monitor), the highest figures for entrepreneurship during the pandemic were reported in the global region of Latin America and the Caribbean, where out of every five adults, more than one have started or run a new business (GEM, 2021), generally established in the informal sector. In Peru, 2020 saw a 48.8% reduction in the total number of micro and small enterprises (MYPE) nationwide, and the rise of informality to 85% as a result of the pandemic (COMEXPERU, 2021).

The lack of employment opportunities forces many young people to undertake and become informal entrepreneurs (AguIgwe & Ochinanwata, 2021; Barron, 2020; Santos et al., 2021; Ullah et al., 2019). 50% of Peruvians undertake out of necessity in order to generate income and improve their quality of life. Although the pandemic boosted entrepreneurship, new companies face financial challenges, human resource management, support measures and mechanisms, marketing, crisis management and other challenges (Salamzadeh & Dana, 2021), which keeps them in the informality and limit their growth. In this context, it can be affirmed that informal entrepreneurship in practice faces various opportunities, but also obstacles that impede its development and growth, resource management and difficulties in accessing economic benefits provided by the state, in this sense, the present study aims to identify and establish improvement actions to guarantee sustainable development and its competitiveness. According to research based on the key elements according to Gartner (1985) are the external context, the person, the processes, and the company. Those that reveal the importance of establishing these elements in informal enterprises to be able to compete in their sector (Castro et al., 2015). In this sense, this research focuses its analysis on the following question: What are the determining factors with the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic?

LITERATURE REVIEW AND HYPOTHESIS

Entrepreneurship is an attitude, a behavior that is executed when you have the necessary opportunities and resources; Icek Ajzen in the theory of planned behavior (TCP) maintains that the three main determinants to undertake are: attitude, social environment and the degree of control of perceived behavior (Valencia et al., 2014). Among the authors and theories of entrepreneurship associated with the study we have Shumpeter (1934), who reveals that the entrepreneur is an innovator and creator of new technologies, and that his main objective, according to Say (1803), is to achieve dividends; for which it must have the key elements that Gartner (1985) lists: the external context, personal characteristics, processes, and the company. The company in the systemic approach of Betarlanfy (1984), is considered a system that adapts to the environment, be it social, political, economic and technological (Castro et al., 2015), and that in its creation goes through different stages; Alan Gibb in 1988, formally analyzes these stages, starting with the motivation of the entrepreneur, business idea, reaffirmation, allocation of resources, contracts and durability (González & Gálvez, 2008), aspects that are related to the formalization or not of a business.

Regarding formal entrepreneurship, in Peru, according to Law No. 28015, "Law for the promotion and formalization of micro and small businesses", a formal company is one that is constituted in accordance with current law, whether it is a person natural or legal, "in any form of organization or business management" (Law for the Promotion and Formalization of Micro and Small Businesses, 2003).

Informal entrepreneurship arises from a voluntary decision that is made in order to reduce costs, time and the complexities of formal regulation (Xheneti et al., 2019). Although, the informal economy helps create jobs, stimulates innovation and reduces inequality; This type of economy generates tax evasion, low wages, poor working conditions, low productivity and low economic growth (AguIgwe & Ochinanwata, 2021). Informal entrepreneurship develops due to the deficit of human, social and cultural capital, as well as discrimination, obstacles and barriers and exposure to precariousness (Heilbrunn, 2018; Wolfe et al., 2020); Factors that impact more among women entrepreneurs, due to social norms, time constraints, low entrepreneurial capacity and lack of financing (Oppedal & Garcia, 2020). Thus, the following hypothesis emerges:

H1 Gender is significantly related to the formal entrepreneurship of young entrepreneurs in a developing country during a pandemic.

On the other hand, formalizing a venture is not an easy task, it requires reconsidering original business plans, demystification of tax procedures, access to seed capital and bank loans (Barron, 2020; Xheneti et al., 2019; Thapa Karki & Xheneti, 2018). The perceived loss of financial resources, customer demand and social support, cause stress factors that create a psychological impact on potential entrepreneurs, who experience fear of failure and negative emotions that prevent the formalization of their ventures (Liu et al., 2020; Thapa Karki et al., 2020). Recurring obstacles to formality include: lack of financial access, information, government support, administrative procedures, and high tax taxes (Rahou & Taqi, 2021; Williams et al., 2020).

H2 Obstacles such as lack of money, lack of information, lack of government support, procedures and high taxes to start a business are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic.

Likewise, limited financing is the main obstacle to starting a business; The availability of financial resources, social capital and debt, for small and medium-sized companies represents an important condition for their creation, development and survival (Fredström et al., 2021; Anton & Bostan, 2017). In informal entrepreneurship, informal financing sources such as family, friend or neighbor loans, private lenders or rotating savings groups are widely used (Bruton et al., 2021; Alvarado, 2021), while formal entrepreneurs use formal seed capital financing, personal savings, bank loan and/or government programs (Nguyen & Canh, 2020; Allen et al., 2019). Based on this literature, the following hypothesis emerges:

H3 The sources of financing such as personal savings, bank loans, family loans, seed capital, loans from moneylenders and government programs, to start the business are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country at the time of pandemic.

To end this section, in the post-pandemic era, Zhang & Huang (2021) point out that university students have retained the intention to undertake, and the trend is to start a virtual business. Currently, entrepreneurs seek to generate income, and prefer to start in the informal sector because they think that this will bring them more benefits, to this is added, the influence of family experience on the perception of formality as something negative (Benites et al., 2021; Amésquita et al., 2018). Therefore, despite the fact that formality allows the growth of companies (Oppedal & Garcia, 2020; Assenova & Sorenson, 2017), informal companies are seldom formalized, in addition, when starting a business, access to initial capital is limited, and although government programs offer significant initial funding for the development and growth of a formal enterprise, it is also necessary to strengthen support networks and follow-up mentoring to ensure the effectiveness of these programs (Barron, 2020). In this way the last hypothesis is formulated.

H4 The pandemic, the conditions and experience of entrepreneurship, the initial investment and the entrepreneurial attitude are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic.

METHOD

This research work has a quantitative, descriptive approach, non-experimental cross-sectional design (Hernández, Fernández & Baptista, 2014), a non-probabilistic convenience sampling was applied, for which a questionnaire was applied elaborated in the Google form whose link was sent to all the students of the business faculty of the private university of Lima, which in that year were a total of 22,437 students enrolled, however, the total number of business students. The survey was answered by 3,248 students, of which 846 stated that they had a company. After

cleaning the data and eliminating those cases where the answers were incomplete, 809 responses were obtained for the analysis of this study.

To participate in the study, the student had to have a business in operation at the time the information was collected, which was in the last quarter of 2020 during the period of the health crisis (covid-19). A questionnaire was developed taking into account the criteria of (Valbuena & Borda, 2017), the instrument used consisted of Likert scale and dichotomous questions. To measure formality, a dichotomous question was asked where business students had to select whether their venture was "formal or informal", understanding that formal entrepreneurship in this study consists of the venture being constituted according to current Peruvian law. To analyze the "obstacles to entrepreneurship" a list was made such as: "Lack of money, Lack of information, Lack of government support, Procedures and High taxes" for which business students had to answer "yes" or "no". To analyze the financial factors, a list of financing sources that they value for their undertaking was presented, for which they had to select "yes" or "no", this list consisted of: Personal savings, Bank loan, Family loan, Seed capital, Lender Loan and Government Program. Finally, to analyze the formality with other factors, a list was made such as: Pandemic (if your business had been implemented before or during the pandemic), for the condition of the undertaking (it was considered if your business was in the initial stage, that is, less than a year of operation, if it was a business that had already been in the market for several years and if the business was family-owned, that is, it had not been created but rather an inherited enterprise), Company experience (it was asked to answer the amount years that the company had in the market), Initial investment (they had to indicate the value of the investment in the Peruvian currency), and finally to evaluate the "Entrepreneurial Attitude" it was measured with three questions on a 5-point Likert scale where 1="Never" and 5="always"; These questions were (you answer according to your experience, at the time of developing your project you: "You dedicate yourself to your activity to achieve the goals and objectives set", "You consider yourself optimistic and confident", "You work as a team").

For the application of the instrument, an email was sent inviting them to participate voluntarily through the informed consent that was presented at the beginning of the form, for which it was necessary for the business students to select the option "if I accept" to have access to everything questionnaire. The study did not need the authorization of the ethics committee of the university because people or animals have not been manipulated and the information collected is not a process or secret formula of the company. The collected data were transferred to the Microsoft Excel program in order to refine the duplicated information and then use the SPSS V-22 software to elaborate the frequencies, tables and figures. To contrast the hypotheses, the ANOVA, Pearson and Rho Spearman statistical tests were used, which were used according to the behavior of the normality of the data.

RESULTS

According to the hypotheses of the study, the following results are presented:

| Table 1 GENDER AND FORMALITY | | | | | |
|-----------------------------------------------|----------|----------------|------------------|--------|--------------|
| | | | Formality | | Total |
| Gender | Feminine | Count | Informal | Formal | |
| | | % Of the total | 33,6% | 31,3% | 64,9% |
| | Male | Count | 115 | 169 | 284 |
| | | % Of the total | 14,2% | 20,9% | 35,1% |
| | Total | Count | 387 | 422 | 809 |
| | | % Of the total | 47,8% | 52,2% | 100,0% |

Table 1 shows the descriptive analysis of the participants, finding that 64.9% correspond to the female gender and 35.1% to the male gender, likewise, 47.8% were informal enterprises and 52.2% were formal.

| Table 2 DESCRIPTIVE OF GENDER AND FORMALITY | | | | | | | | |
|--------------------------------------------------------|-----|--------|-----------|----------------|---------------------------------------------|-------------|---------|---------|
| | N | Mean | Standard | Standard error | 95% of the confidence interval for the mean | | Minimum | Maximum |
| | | | deviation | | Lower Limit | Upper limit | | |
| Feminine | 525 | 1,4819 | 0,50015 | 0,02183 | 1,439 | 1,5248 | 1 | 2 |
| Male | 284 | 1,5951 | 0,49174 | 0,02918 | 1,5376 | 1,6525 | 1 | 2 |
| Total | 809 | 1,5216 | 0,49984 | 0,01757 | 1,4871 | 1,5561 | 1 | 2 |

Table 2 shows the descriptive mean of the formal enterprises, both male and female, in order to contrast the first hypothesis. Gender is significantly related to the formal entrepreneurship of young entrepreneurs in a developing country during a pandemic. According to the averages, it is observed that the business initiatives of male entrepreneurs constitute a greater proportion than those of female gender.

| Table 3 ANOVA ANALYSIS OF GENDER AND FORMALITY | | | | | |
|-----------------------------------------------------------|----------------|-----|----------------|-------|-------|
| | Sum of squares | gl | Quadratic mean | F | Sig. |
| Between groups | 2,36 | 1 | 2,36 | 9,547 | 0,002 |
| Within groups | 199,51 | 807 | 0,247 | | |
| Total | 201,87 | 808 | | | |

The result obtained in the contracting of hypothesis H1, a significance level of 0.002 is presented, showing that there is a significant difference between the female and male gender for the formality of the enterprise, that is, there is a relationship between gender and the formality of undertakings.

| Table 4 OBSTACLES TO ENTREPRENEURSHIP AND FORMALITY | | | | | | |
|----------------------------------------------------------------|-------------------------|-------------|------------------------|-------------------------------|------------|------------|
| Rho de Spearman | | OB1 | OB2 | OB3 | OB4 | OB5 |
| | | Lacks money | Information is missing | Government support is lacking | Procedures | High taxes |
| Formality | Correlation coefficient | 0,015 | 0,028 | 0,012 | -,105** | -0,003 |
| | Sig. (bilateral) | 0,675 | 0,418 | 0,736 | 0,003 | 0,922 |
| | N | 809 | 809 | 809 | 809 | 809 |

Table 4 presents the contrast of hypothesis 2 (H2), that is, we want to know if the obstacles to entrepreneurship are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic, the results show that formality is significantly related (p value=0.003) with the only obstacle to undertake related to paperwork. In other words, the lack of money, the lack of information, the lack of government and the high taxes are not related to the formality of university entrepreneurs.

| Table 5 FUENTES DE FINANCIAMIENTO PARA INICIAR EL NEGOCIO Y LA FORMALIDAD | | | | | | | |
|------------------------------------------------------------------------------|-----------------------|------------------|-----------|-------------|--------------|-------------|--------------------|
| | | FI1 | FI2 | F3 | FI4 | FI5 | FI6 |
| | | Personal savings | Bank Loan | Family loan | Seed capital | Lender Loan | Government program |
| Formality | Pearson's correlation | -0,062 | ,331** | -0,035 | 0,059 | ,105** | ,097** |
| | Sig. (bilateral) | 0,077 | 0 | 0,327 | 0,096 | 0,003 | 0,006 |
| | N | 809 | 809 | 809 | 809 | 809 | 809 |
| **. The correlation is significant at the 0.01 level (2-tailed). | | | | | | | |
| *. The correlation is significant at the 0.05 level (2-tailed). | | | | | | | |

Table 5 shows the results to contrast (H3) which indicates that the sources of financing to start the business are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic. It is observed that formality is significantly related to bank loans (p value=0.000), with loans from moneylenders (p value=0.003) and with the financing of government programs (p value=0.006), but it is not related with investment based on personal savings, family loans and seed capital.

| Table 6 FORMALITY AND ITS RELATIONSHIP WITH OTHER FACTORS | | | | | | |
|------------------------------------------------------------------|-------------------------|-------------|-----------------------------|--------------------|--------------------|--------------------------|
| Rho de Spearman | | In Pandemic | Condition of the enterprise | Company experience | Initial investment | Entrepreneurial attitude |
| Formality | Correlation coefficient | -0.339** | -0.215** | 0.361** | 0.432** | 0.022 |
| | Sig. (bilateral) | 0 | 0 | 0 | 0 | 0.539 |
| | N | 809 | 809 | 809 | 756 | 801 |
| **. The correlation is significant at the 0.01 level (2-tailed). | | | | | | |
| *. The correlation is significant at the 0.05 level (2-tailed). | | | | | | |

Table 6 shows the H4 contrast, which indicates that the pandemic, the conditions and experience of entrepreneurship, the initial investment and the entrepreneurial attitude are significantly related to the formal entrepreneurship of young entrepreneurs in a developing country at the time of pandemic. The results show that formality is significantly related to the pandemic (p value=0.000), with the conditions of the enterprise (p value=0.000), the experience of the company (p value=0.006), but it is not related to the entrepreneurial attitude (p value=0.539). When talking about the condition of the enterprise, in this study it is analyzed whether the enterprise in an early phase (59.1%), that is, has started its operations no more than one year old; Experienced entrepreneurship (13.0%) whose business has already been in operation for more than one year, therefore it is more consolidated and finally a family business (27.9%), that is, it is a family-run business.

DISCUSSION AND CONCLUSIONS

The present study aimed to determine the factors that are related to the formal entrepreneurship of young entrepreneurs in a developing country in times of pandemic, for this purpose, business students from a private university in Lima in Peru were surveyed. In this sample of participants, a greater number of female entrepreneurs (64.1%) was found, this could be contrary to what was indicated by Zhang & Huang (2021) who affirm that the intention to undertake is significantly higher in male students than in women; This difference could be due to the fact that in Peru, there are more and more women than men in universities and the percentage of women with businesses is on the rise, for example, in 2019 there were 53.3% of natural companies led by women (Arellano, 2020).

In relation to the first hypothesis, it was shown that gender is significantly related to formal entrepreneurship, with a higher number being those of the male gender, this result agrees with the reviewed literature, where it is stated that women are more likely to start a business in informality (Oppedal & Garcia, 2020; Thapa Karki & Xheneti, 2018). This reaffirms that gender gaps are also present in entrepreneurship in developing countries, where women have not yet assumed a leading role, this may be due to political, social and cultural limitations.

In this study, lack of money, information, government support, and high taxes do not influence formality, as do administrative procedures. In opposition, Rahou & Taqi (2021) who found all the aforementioned factors as obstacles and others, in this regard, Williams, et al., (2020) explain that the highest levels of informality occur due to ignorance of the need to register, the lack of trust in the state and the perception of corruption that exists in the public sector, in addition to the fact that entrepreneurs have normalized informality, making it a common family practice and consider that all similar companies employ it. It should be noted that the factors that motivate the creation of a small business in informality are unemployment, poorly paid jobs and the improvement of family income (Bruton et al., 2021; Alvarado, 2021), in this line the trust in the government and the benefits that formality generated for them will make these informal entrepreneurs formalize with conviction (Assenova & Sorenson, 2017; Oppedal & Garcia, 2020; Barron, 2020).

Starting a business is not easy, financing is one of the main challenges, and although in situations of poverty microfinance has contributed to formal entrepreneurship, informal financing is more accessible (Bruton et al., 2021; Anton & Bostan, 2017). The results indicate that the sources of initial financing that are related to formality are the bank loan, lender loan and government programs, and personal savings, while the family loan or seed capital are not related to formality. According to Fredström, et al., (2021), formality is related to the complex dynamism between formal and informal institutions, where entrepreneurs choose how to finance themselves; The use of formal or informal financing, or both, will depend on individual factors, organizational factors and contextual factors that surround the entrepreneur (Nguyen & Canh, 2020). According to Allen, et al., (2019), among the sources of informal financing for companies are commercial loans and family loans, on the contrary, financing from lenders generate negative growth, which does not mean that the entrepreneurs who started with financing of lenders get to formalize their businesses.

Finally, when contrasting formality with other factors, a significant and inverse relationship with the pandemic and working conditions was evidenced, a direct relationship with the experience of the company and the initial investment, but no relationship was found with the entrepreneurial attitude. For Zhang & Huang (2021), the intention of young university students to undertake is maintained in the new post-pandemic context, which does not mean that they will do so formally, since the lack of experience, the precarious conditions and the Negative perceptions regarding formality limit the growth of the formal sector (Benites et al., 2021; Amésquita et al., 2018; Oppedal & Garcia, 2020; Barron, 2020).

In conclusion, the factors that are related to the formal entrepreneurship of young entrepreneurs in a developing country during a pandemic are: gender, administrative procedures, sources of financing, initial investment, experience of the company, and inversely, the pandemic and working conditions. Regarding initial financing, the results show that bank loans, lenders and government programs are related to formality, which requires further analysis to understand how the financing of lenders influences formality, in addition to broad analysis perceptions regarding the real barriers that prevent the formalization of companies. The findings reaffirm the need for government policies that not only focus on the formal sector, but also develop strategies in the informal sector, to enhance it and promote formality (Makhdoom et al., 2021; Nguyen & Canh, 2020; Rahou & Taqi, 2021).

This study provides theoretical, social and professional implications; since it contributes to the development of scientific literature related to the line of research related to entrepreneurship and the formality of business initiatives. On the other hand, this study makes it possible to identify the possible channels of rapprochement of government programs with entrepreneurs in higher education centers so that they can access formalization programs and access to financing to promote the growth and sustainability of their businesses. Likewise, being able to provide them with greater guidance on the demands of state entities that may affect their continuity, that is, the study provides the factors that are related to the formality that public and private organizations can take into account to promote formal entrepreneurship in young entrepreneurs. This study also has social implications, since the government can consider the factors found to formulate public policies to promote the formality of the enterprise, its growth and development.

One of the main limitations of the study can be considered that the conclusions are based on the data collected from a non-probabilistic sample for convenience, that is, conclusions are made from the information taken from the business students of a single house of studies, which It could be biased, taking into account that this university promotes entrepreneurship and the formalization of its students. However, it contributes to the scientific literature related to formal entrepreneurship that is important to give continuity in the development of this line of research. Therefore, the authors consider it extremely important to continue researching with students from other houses of study at the national and international level. Likewise, the research group estimates that, just as there is greater access to virtuality, there are also greater opportunities to undertake, which generates a greater need to continue doing research on the impact on the formalization of enterprises in this new context.

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