

A STUDY ON MANAGEMENT PRACTICES OF ENTREPRENEURS IN INFORMAL SECTOR

Dr. P.VIKKRAMAN

Director I/C, School of Management Studies, Anna University of Technology, Coimbatore
Mobile no. 0 94433 31656 email: dr.p.vikkraman@gmail.com

Mr. S. BASKARAN

Research Scholar, Anna University of Technology, Coimbatore
Mobile No. 0 90351 96199 email: rsbkaran@gmail.com

Abstract

The informal sector represents an important part of the economy and the labor market in many countries, especially developing countries. Measurements of the informal sector are of intrinsic interest in their own right and contribute toward exhaustive measures of gross domestic product (GDP). Considering that the informal sector provides employment for income creation to a large number of poor and contributes significantly to the GDP of many developing countries, as most of the informal sector enterprises do not maintain business accounts. The informal sector represents a substantial portion of economic activity, especially in developing and transition countries. Some people engage in legal but informal work in India in a system of cash-only exchanges. These individuals are operating unregistered businesses or engaging in under-the-table work. This type of economic activity is often called “informal work” or referred to as “the informal economy.” There is a natural link between the informal economy and the services provided by microenterprise programs. Estimates (Charmes 2000) show that the sector accounts for more than two thirds of total employment and more than one third of the total gross domestic product (GDP) of the nonagricultural sector in Asia.

Keywords: Informal Economy, Informal Sector, Informal Work, Informal Entrepreneurs

INTRODUCTION

In recent years, about one in four dollars changing hands has not passed through officially accountable channels.

American Demographics (1998)

Selling oranges in a grocery store is a formal economic activity. Selling them on a highway exit ramp in Los Angeles Country to passing motorists is an informal activity.

Like wise, producing T-shirts in a factory where labor and health standards are not enforced is an informal economic activity

Marcelli, Pastor, & Joassart (1999)

The informal sector refers to the part of the economy that does not fall under the purview of organized economic activities. As the concern of the world community increased over the lack of economic growth and perpetuation of poverty in the developing countries, policy makers began looking for a solution to ease the situation. In analyzing the contribution of the informal sector,

emphasis is placed on the pervasive importance of the link between formal and informal activities that are not confined to particular occupations or even economic activities. Rather, informal activities are the way of doing things, characterized by:

- Ease of entry;
- Reliance on indigenous resources;
- Family ownership of enterprises;
- The small scale of operation;
- Labor-intensive and adapted technology;
- Skills acquired outside the formal school system;
- Unregulated and competitive markets.

In addition to the above characteristics, the following are sometimes included:

- Units work outside the formal administrative networks that cover the formal sector;
- A relatively low level of capital requirement.

INFORMAL SECTOR IN INDIAN CONTEXT

Broadly, the informal sector provides income-earning opportunities for a larger number of workers. In India, there is large magnitude of workforce getting their livelihood from the informal sector. The enactment of legislations and other measures to bring them under the regulatory and social protection instruments will adversely affect the existing mechanism prevailing in the informal sector as it would lead to market imperfections creating hurdles in the smooth functioning of the market led economy. Besides, it requires huge infrastructural and institutional arrangements involving financial implications beyond the capacity of the Government in the changing scenario all over the world. The Government has to play a role of facilitator and promoter so that the workers employed in the informal sector are able to get requisite level of protection and security to have decent work environment enabling them to express their skills fully and according to their capabilities necessary for enhancing the competitiveness of their outputs and thereby raising their income and socio-economic status.

IMPORTANCE OF INFORMAL SECTOR IN INDIAN ECONOMY

About 370 million workers constituting 92% of the total workforce in a country were employed in the unorganized sector as per NSS Survey 1999-2000. It plays a vital role in terms of providing employment opportunity to large segment of the working force in the country and contributes to the national product significantly. The contribution of the informal sector to the net domestic product and its share in the total NDP at current prices has been over 60%. In the matter of savings the share of household sector in the total gross domestic saving mainly informal sector is about three fourth.

REVIEW OF LITERATURE

Norman A Loayza, *The Economics of the Informal Sector*, The author presents the view that informal economies arise when governments impose excessive taxes and regulations that they

are unable to enforce. "The results suggest that the size of the informal sector depends positively on proxies for tax burden and restrictions on the labor market.

Guillermo Vuletin, *Measuring the Informal Economy*, This paper estimates the size of the informal economy for 32 mainly Latin American and Caribbean countries in the early 2000s. Using a structural equation modeling approach, and find that a stringent tax system and regulatory environment, higher inflation, and dominance of the agriculture sector are key factors in determining the size of the informal economy. The results also confirm that a higher degree of informality reduces labor unionization, the number of contributors to social security schemes, and enrollment rates in education.

Ajaya Kumar Naik, *Measuring the Informal Economy in Developing Countries*, The objective of the paper is to study the informal sector employment and Informal employment scenario across sectors, states, industry group etc in India using the new definition of informal sector and informal worker proposed by National Commission for Enterprises in the Unorganised Sector (NCEUS) and to show that the new definition is more suitable to study the informal sector. The conclusion of the study is the Informal sector accounts for a sizeable number of workers in India across different industry groups and states. The concept of informal sector and informal workers proposed by NCEUS is more appropriate in the context of Indian statistical system and it better compatible with international definition of informal sector.

Andrew Henley, G. Reza Arabsheibani & Francisco Carneiro, *On Defining and Measuring the Informal Sector*, This paper investigates the degree of congruence between three definitions of informality based on employment contract registration, on social security protection and the characteristics of the employer and employment using Brazilian household survey data for the period 1992 to 2001. Results suggest growing heterogeneity within the informal sector. Informal activity may be as much associated with entrepreneurial dynamism as with any desire to avoid costly contract registration and social protection.

METHODOLOGY

The main objective of the study is to study and analyze the informal sector management practices by informal entrepreneurs and to assess the willingness of informal entrepreneurs to transform into formal sector. The study is basically a descriptive in nature. The data has collected based on the structured questionnaire among the 700 respondents in Dindigul district of Tamilnadu. The sampling procedure is proportionate of stratified multi stage and convenient sampling method used for the data collection. The district has divided in to two revenue divisions and two revenue divisions have divided in to the seven blocks in each division. Each block fifty respondents have selected randomly those who are doing business in informal sector. The data analyzed using percentage, Analysis of Variance, Chi – Square.

RESPONDENTS PROFILE
SEX AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No.1
Sex and Level of Satisfaction towards Business

S. No.	Sex	No. of Respondents	%	Ave rage	Range		S.D
					Min	Max	
1.	Male	592	84.6	37.5	23.0	50.0	5.2
2.	Female	108	15.4	33.1	23.0	42.0	5.3
	Total	700	100.0				

It could be observed from the above table that the level of satisfaction towards business perceived by the male respondents ranges between 23 and 50 with an average of 37.5 and the level of satisfaction towards business perceived by the female respondents ranges between 23 and 42 with an average of 33.1. From the analysis it could be inferred that the maximum level of satisfaction towards business among the male respondents in the study area.

AGE AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No. 2
Age and Level of Satisfaction towards Business

S. No.	Age	No. of Respondents	%	Ave rage	Range		S.D
					Min	Max	
1.	Below 30 years	80	11.4	36.4	23.0	46.0	6.3
2.	31-40 years	242	34.6	37.3	23.0	46.0	5.0
3.	41-50 years	261	37.3	37.9	23.0	50.0	4.8
4.	51-60 years	87	12.4	35.1	23.0	46.0	5.4
5.	Above 61 years	30	4.3	29.2	23.0	42.0	6.0
	Total	700	100.0				

It is contemplated from the above table that the level of satisfaction towards business belongs to the age group of below 30 years ranges between 23 and 46 with an average of 36.4. The age group of 31-40 years of respondents and their level of satisfaction ranges between 23 and 46 with an average of 37.3. The level of satisfaction towards business belongs to the age group of 41-50 years ranges between 23 and 50 with an average of 37.9 and the level of satisfaction towards business belongs to the age group of 51-60 years ranges between 23 and 46 with an average of 35.1. And finally the level of satisfaction towards business belongs to the age group of above 61 years ranges between 23 and 42 with an average of 29.2. It found from the analysis that the maximum level of satisfaction perceived by the age group of 41-50 years.

NATURE OF BUSINESS AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No.3

Nature of Business and Level of Satisfaction towards Business

S. No.	Nature of business	No. of Respondents	%	Ave rage	Range		S.D
					Min	Max	
1.	Manufacturing	106	15.1	35.1	23.0	46.0	5.7
2.	Trading	147	21.0	34.7	23.0	45.0	5.8
3.	Services	447	63.9	37.9	23.0	50.0	5.1
	Total	700	100.0				

It is substantiated from the above table that the level of satisfaction experienced by the respondents in the business of manufacturing ranges between 23 and 46 with an average of 35.1. The level of satisfaction experienced by the respondents in the business of trading ranges between 23 and 45 with an average of 34.7 and finally, the level of satisfaction experienced by the respondents in the business of services ranges between 23 and 50 with an average of 37.9. From the analysis it is concluded that respondents in the business of services have experienced the maximum level of satisfaction.

With a view to know the association between nature of business and their level of satisfaction in business, a two-way table as prepared and is exhibited in the following table.

Table No.4

Nature of Business and Level of Satisfaction towards Business (Two-Way Table)

S. No.	Nature of business	Level of satisfaction			Total
		Low	Medium	High	
1.	Manufacturing	28 (26.4%)	64 (60.4%)	14 (13.2%)	106
2.	Trading	48 (32.7%)	77 (52.4%)	22 (15.0%)	147
3.	Services	55 (12.3%)	263 (58.8%)	129 (28.9%)	447
	Total	131	404	165	700

It contemplated from the above table that the percentage of high level of satisfaction was the highest (28.9%) among the respondents in the business of services and the same was the lowest (13.2%) among the respondents in the business of manufacturing. Similarly the percentage of medium level of satisfaction was the highest (60.4%) among the respondents in the business of manufacturing and the same was the lowest (52.4%) among the respondents in the business of trading. Finally, the percentage of low level of satisfaction was the highest (32.7%) among the respondents in the business of trading and same was the lowest (12.3%) among the respondents in the business of services.

In order to know the relationship between nature of business and their level of satisfaction towards business, the following null hypothesis was framed and tested by using Chi-squared test and the results is shown in the following table.

Table No.5
Nature of Business and Level of Satisfaction towards Business (Chi-Square Test)

Factor	Calculated χ^2 Value	Table Value	D.F	Remarks
Nature of business	44.137	9.488	4	Significant at 5% level

It is implied from the table that the calculated chi-square value is greater than the table value and the result is significant at 5% level. Hence the hypothesis “nature of business and their level of satisfaction are not associated” does not hold well. From the analysis it is concluded that there is a close relationship between nature of business and their level of satisfaction towards business.

INCOME PER MONTH AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No.6
Income per Month and Level of Satisfaction towards Business

S. No.	Income per month	No. of Respondents	%	Ave rage	Range		S.D
					Min	Max	
1.	Below Rs.5000	155	22.1	34.1	23.0	50.0	7.4
2.	Rs.5001-10000	297	42.4	37.5	23.0	46.0	4.2
3.	Rs.10001-15000	141	20.1	37.0	23.0	45.0	4.8
4.	Rs.15001-20000	52	7.4	36.8	23.0	43.0	5.8
5.	Rs.20001-25000	30	4.3	40.0	23.0	45.0	3.9
6.	Above Rs.25001	25	3.6	39.6	36.0	45.0	2.0
	Total	700	100.0				

It is evident from the above table that the level of satisfaction experienced by the respondents of their monthly income of below Rs.5000 ranges between 23 and 50 with an average of 34.1. The level of satisfaction experienced by the respondents of their monthly income between Rs.5001-10000 ranges between 23 and 46 with an average of 37.5 and the monthly income of the respondents from Rs.10001-15000 ranges between 23 and 45 with an average of 37.0. On the other hand, the level of satisfaction experienced by the respondents of their monthly income Rs.15001-20000 ranges between 23 and 43 with an average of 36.8 and the level of satisfaction experienced by the respondents of their monthly income Rs.20001-25000 ranges between 23 and 45 with an average of 40.0. Finally, the level of satisfaction experienced by the respondents of their monthly income of above Rs.25001 ranges between 36 and 45 with an average of 39.6. From the analysis it is concluded that respondents of their monthly income Rs.20001-25000 have experienced the maximum level of satisfaction.

With a view to know the association between the income per month and their level of satisfaction in business, a two-way table as prepared and is exhibited in the following table.

Table No.7
Income per Month and Level of Satisfaction towards Business (Two-Way Table)

S. No.	Income per month	Level of satisfaction			Total
		Low	Medium	High	
1.	Below Rs.5000	63 (40.6%)	59 (38.1%)	33 (21.3%)	155
2.	Rs.5001-10000	31 (10.4%)	206 (69.4%)	60 (20.2%)	297
3.	Rs.10001-15000	17 (12.1%)	91 (64.5%)	33 (23.4%)	141
4.	Rs.15001-20000	9 (17.3%)	24 (46.2%)	19 (36.5%)	52
5.	Rs.20001-25000	5 (16.7%)	10 (33.3%)	15 (50.0%)	30
6.	Above Rs.25001	6 (24.0%)	14 (56.0%)	5 (20.0%)	25
Total		131	404	165	700

It extrapolated from the above table that the percentage of high level of satisfaction experienced was the highest (50.0%) among the respondents monthly income Rs.20001-25000 and the same was the lowest (20.0%) among the respondents of above Rs.25001 income group. Similarly the percentage of medium level of satisfaction was the highest (69.4%) among the respondents of Rs.5001-10000 income group and the same was the lowest (33.3%) among the respondents of Rs.20001-25000 income group. Finally, the percentage of low level of satisfaction was the highest (40.6%) among the respondents of below Rs. 5000 income group and same was the lowest (10.4%) among the respondents of Rs.5001-10000 income group.

In order to know the relationship between the income per month and their level of satisfaction in business, the following null hypothesis was framed and tested by using Chi-squared test and the results is shown in the following table.

Table No.8
Income per Month and Level of Satisfaction towards Business (Chi-Square Test)

Factor	Calculated χ^2 Value	Table Value	D.F	Remarks
Income per month	91.844	18.307	10	Significant at 5% level

It is examined from the table that the calculated chi-square value is greater than the table value and the result is significant at 5% level. Hence the hypothesis “income per month and their level

of satisfaction are not associated” does not hold well. From the analysis it is concluded that there is a close relationship between income per month and their level of satisfaction.

BUSINESS EXPERIENCE AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No.9

Business Experience and Level of Satisfaction towards Business

S. No.	Business experience	No. of Respondents	%	Average	Range		S.D
					Min	Max	
1.	Below 5 years	148	21.1	33.6	23.0	45.0	6.2
2.	5-10 years	281	40.1	37.1	23.0	50.0	5.6
3.	10-15 years	128	18.3	37.8	23.0	49.0	4.5
4.	Above 15 years	143	20.4	38.7	23.0	50.0	3.7
	Total	700	100.0				

It is scrutinized from the above table that the level of satisfaction of the respondents whose experience in business as below 5 years ranges between 23.0 and 45.0 with an average of 33.6 and the respondents whose experience in business from 5 to 10 years and their level of satisfaction ranges between 23 and 50 with an average of 37.1. The respondents whose experience in business from 10-15 years and their level of satisfaction ranges from 23 to 49 with an average of 37.8 and the respondents whose experience in business as above 15 years and their level of satisfaction as minimum of 23 to maximum of 50 with an average of 38.7. It witnessed from the analysis that the maximum level of satisfaction have reached by the respondents whose experience in business as above 15 years.

With a view to know the association between business experience and their level of satisfaction in business, a two-way table as prepared and is exhibited in the following table.

Table No.10

Business Experience and Level of Satisfaction towards Business (Two-Way Table)

S. No.	Business experience	Level of satisfaction			Total
		Low	Medium	High	
1.	Below 5 years	62 (41.9%)	64 (43.2%)	22 (14.9%)	148
2.	5-10 years	47 (16.7%)	153 (54.4%)	81 (28.8%)	281
3.	10-15 years	11 (8.6%)	94 (73.4%)	23 (18.0%)	128
4.	Above 15 years	11 (7.7%)	93 (65.0%)	39 (27.3%)	143
	Total	131	404	165	700

It is speculated from the above table that the percentage of high level of satisfaction of the respondents who had 5-10 years of experience in their business was the highest (28.8%) and same was the lowest (14.9%) among the respondents who had below 5 years of experience in their business. The percentage of medium level of satisfaction was the highest (73.4%) among the respondents who had 10-15 years of experience in their business and same was the lowest (43.2%) among the respondents who had below 5 years of experience in their business. Finally the percentage of low level of satisfaction of the respondents who had below 5 years of experience in their business was the highest (41.9%) and same was the lowest (7.7%) among the respondents who had above 15 years of experience in their business.

In order to know the relationship between business experience and their level of satisfaction towards business, the following null hypothesis was framed and tested by using Chi-squared test and the results is shown in the following table.

Table No.11

Business Experience and Level of Satisfaction towards Business (Chi-Square Test)

Factor	Calculated χ^2 Value	Table Value	D.F	Remarks
Business experience	82.652	12.592	6	Significant at 5% level

It is examined from the table that the calculated chi-square value is greater than the table value and the result is significant at 5% level. Hence the hypothesis “business experience and their level of satisfaction are not associated” does not hold good. From the analysis it is concluded that there is a close relationship between business experience and their level of satisfaction.

NATURE OF MANAGEMENT AND LEVEL OF SATISFACTION TOWARDS BUSINESS

Table No.12

Nature of Management and Level of Satisfaction towards Business

S. No.	Nature of management	No. of Respondents	%	Ave rage	Range		S.D
					Min	Max	
1.	Self	496	70.9	36.8	23.0	50.0	5.4
2.	Family members	101	14.4	34.2	23.0	45.0	6.5
3.	Employees	103	14.7	39.3	28.0	45.0	3.2
	Total	700	100.0				

It is discerned from the above table that the level of satisfaction of the respondents who are managing their business by their own ranges between 23 and 50 with an average of 36.8 and the respondents who are managing their business with their family members and their level of satisfaction ranges between 23 and 45 with an average of 34.2. The respondents who are managing their business with their employees and their level of satisfaction ranges from 28 to 45 with an average of 39.3 It noted from the analysis that the maximum level of satisfaction have attained by the respondents who are managing their business with their employees.

With a view to know the association between nature of management and their level of satisfaction in business, a two-way table as prepared and is exhibited in the following table.

Table No.13

Nature of Management and Level of Satisfaction towards Business (Two-Way Table)

S. No.	Nature of management	Level of satisfaction			Total
		Low	Medium	High	
1.	Self	91 (18.3)	295 (59.5)	110 (22.2)	496
2.	Family members	34 (33.7)	48 (47.5)	19 (18.8)	101
3.	Employees	6 (5.8)	61 (59.2)	36 (35.0)	103
	Total	131	404	165	700

It is indicated from the above table that the percentage of high level of satisfaction of the respondents who managed their business with employees was the highest (35.0%) and same was the lowest (18.8%) among the respondents who managed their business with family members. The percentage of medium level of satisfaction was the highest (59.5%) among the respondents who managed their business by their own and same was the lowest (47.5%) among the respondents who managed their business with family members. Finally the percentage of low level of satisfaction of the respondents who managed their business with family members was the highest (33.7%) and same was the lowest (5.8%) among the respondents who managed their business with employees.

In order to know the relationship between nature of management and their level of satisfaction towards business, the following null hypothesis was framed and tested by using Chi-squared test and the results is shown in the following table.

Table No.14

Nature of Management and Level of Satisfaction towards Business (Chi-Square Test)

Factor	Calculated Value χ^2	Table Value	D.F	Remarks
Nature of management	30.403	9.488	4	Significant at 5% level

It is evident from the table that the calculated chi-square value is greater than the table value and the result is significant at 5% level. Hence the hypothesis “nature of management and their level of satisfaction are not associated” does not hold well. From the analysis it is concluded that there is a close relationship between nature of management and their level of satisfaction.

CONCLUSION

The entrepreneurs in informal sector have good management practices compare the formal sector sometimes. They are doing business based on the innovative ideas. Their main purpose of doing business in informal sector is for their livelihood and unemployment increases in the formal sector. They are managing the business with the help of their family members. Majority of the informal sector entrepreneurs are not willing to transform their business into the formal sector. They feel that formal sector has lot of rules and regulation and procedure. Due to the lot of constrains their profit margin will be very less in formal sector. There is a close relationship between nature of management and their level of satisfaction.

REFERENCES

1. Giles, David E.A., 1999, Measuring the Hidden Economy: Implications for Econometric Modeling, *Economic Journal*, 109: June, pp. 370 – 380.
2. Hariharan.S.V & Edward Benjamin (1991), *Informal Sector*, Printwell Publishers.
3. Houston, Joel F., 1990, The Policy Implications of the Underground Economy, *Journal of Economics and Business*, 42:1, pp.27 – 38.
4. Kanagasabapathi. P.,(2002) *Unorganized Finance Sector: The Engine for Economic Growth*, Swadeshi Academic Council, Coimbatore.
5. Kanagasabapathi.R (2009) *Indian Models of Economy, Business and Management*, PHI Learning Private Limited, New Delhi.
6. Kishor Chandra Samal (2008) *Informal sector: concept, dynamics, linkages & migration*, Concept Publishing Company, New Delhi.
7. Loayza, Norman A., 1997, *The Economics of the Informal Sector, A Simple Model and Some Empirical Findings*, The World bank, Washington D.C.
8. Michael Krakowski., 2005, Determinants of the Informal Economy: The Importance of Regional Factors HWWA Discussion Paper 313, Department World Economy, p. 5 -7.
9. Schneider, Friedrich, 2002, *Size and Measurement of the Informal Economy in 110 Countries around the World*, World Bank, July.
10. Schneider, Friedrich; Ernste, Dominik H., 2000, *Shadow Economies: Size, Causes and Consequences*, *Journal of Economic Literature*, 38, 1, pp.77 – 114.
11. Tanzi, Vito, 1999, *Uses and Abuses of estimates of the Underground Economy*, *Economic Journal*, 109: June, pp. 338 – 347.
12. Vaidyanathan. R “Successful of Unorganized services” *The Hindu Business Line*, July 1, 2004.
13. Vaidyanathan. R “Understanding the Unorganized sector” *The Hindu Business Line*, June 3, 2004.
14. Vikkraman.P & Baskaran. S, (2011), *A Study on Management Practices of Entrepreneurs in Informal Sector*, IJMSAE, Ascent Publishers Pune.
15. Vikkraman. P & Baskaran.S, (2011) *Financial Management Practices of Entrepreneurs in Informal Sector – An Empirical Study*, *Indian Journal of Applied Research*, Ahmedabad. Volume: 1, Issue: 3, December 2011. ISSN No.2249-555X.