

## A Comparative Study of Women Entrepreneurs in Formal and Informal Economy: A Study of Dhaka City

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**Abstract:** Informal economy has significant impact on employment and income generation. Normally business which are not reorganized, not recorded by public authorities are considered to be the part of informal sector. Informal sector business are small size of operation and low investment so entry is easy compare to formal business. On the other hand women owned business drawn significant attention around the world. This study is compared women entrepreneurs between formal and informal sector. It is find that women in informal and formal sector starts business for independence. In both sector the size of the business is small and operated from their own residence. With successful business performance most of the women in formal and informal sector wants to extend the business. There is no significant differences between women owned business in formal and informal sector. The size of the business, ease of entry and cost of doing business are same in both sector. Women in formal sector does not receive enough support from the authority. Women entrepreneurs in both sectors have entrepreneur mentality so utilize this mentality eventually expand their business. The study is based on Dhaka city only so extended survey for other part of the Bangladesh is suggested.

**Key word:** Informal sector, women entrepreneur, Dhaka

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### INTRODUCTION

**Informal sector:** The concept of the informal sector has its origins in the beginning of the 1970s and has become so popular since then that it is nowadays being used for various purposes and with various meanings (2004) The informal economy can however no longer be considered as a temporary phenomenon. Furthermore, the informal economy has been observed to have more of a fixed character in countries where incomes and assets are not equitably distributed. It seems that if economic growth is not accompanied by improvements in employment levels and income distribution, the informal economy does not shrink. The situation is therefore that the informal economy is continuously increasing in most developing countries, even in rural areas. Estimates show that the non-agricultural employment share of the informal workforce is 78% in Africa, 57% in Latin America and the Caribbean, and 45—85% In Asia. In all developing countries, self-employment comprises a greater share of informal employment than wage employment. Specifically, self-employment represents 70% of informal employment in Sub-Saharan Africa (if South Africa is excluded, the share is 81% <sup>1</sup>), 62% in North Africa, 60% in Latin America and 59% in Asia. Consequently, informal wage employment in the developing world constitutes 30 to 40% of the informal employment outside of agriculture (Becker, SIDA, 2004).

The informal sector comprises all activities that fall outside the formal net of registered, taxed, licensed, statistically documented, and appropriately zoned business enterprises (Thomas, 1988). According to International Labor Organization (ILO)'s employment mission in 1972 described the informal sector, as activities that are unrecognized, unrecorded, unprotected or unregulated by public authorities, was not confined to marginal activities but also included profitable enterprises. Furthermore, the activities of the informal sector were mostly ignored, rarely supported and sometimes actively discouraged by policy makers and governments. The definition of the Informal sector in Bangladesh is Formal employment is defined as employment in establishments employing 10 or more workers. By implication the informal sector is comprised with enterprises with less than 10 workers (Becker, SIDA, 2004).

The motivation behind most informal sector businesses is assumed to be personal survival, as opposed to return on investment (Rauch, 1991). Although this sector will tend to have rich and poor components, most of these businesses provide a subsistence existence. Returns tend to be low and intermittent, security and stability are minimal, working hours are long, and working conditions are poor (Dewar and Watson, 1981).

**Women in Business:** There are different kinds of entrepreneurs. They may be classified on the basis of, for

instance education, motivation, age, business characteristics and gender. One of the most rapidly expanding categories is that of women owned enterprises (WOEs), which require attention for a number of reasons. The potential of women, who represent half of mankind, is greatly underdeveloped in many societies. Yet, women clearly play a very important role in many respects, including in the local economy. By forming WOE's, women are often able to overcome traditional boundaries. WOE's now account for a growing share of all new enterprises in many economies (Anderson Ingrid, *et al*, 2007). Bangladesh is no exception. New technologies and associated societal and organizational changes which are the natural outcome of globalization represent greater opportunities (Sayeed, *et al.*, 2009).

According to researcher female owned businesses are more likely to be found in the retail and service sectors (Charboneau, 1981; Hisrich, 1989; Hisrich and Brush, 1984; Hisrich and O'Brien, 1981, 1982; Humphreys and McClung, 1981; Sexton and Smilor, 1986; Welsh, 1988). According to Humphreys and McClung (1981) female controlled business require less initial capital to enter and offer relatively low return on investment. In another study Sayeed and Nusrat, (2008), find that The most frequent barriers women entrepreneurs are difficult to get help from the financial institution, followed by Government rules and regulation regarding obtained trade license, Tax certificate etc, other barriers are absence of proper women business community to raise the issue to the policy makers of the country, absence of business training institution to learn how to start the business. Other problems are social, that is without support from the family no women can start a business.

According to (Becker, SIDA, 2004). Informal economy is largely characterized by low entry requirements, a small scale of operations and labour intensive methods of production and adapted technology. Based on these characteristics and researcher analysis on female owned business are mainly starts journey through the Informal economy.

**Objective of the study:** The objective of this study to

- To identify the profile of women entrepreneurs in Informal economy in Dhaka city
- To compare women business between formal and informal economy

The main focus of this study to know the reason to start the business, source of ideas for business, location of their business, employment pattern of the business, Business performance in the previous year, types of problem they are facing and do they have any plan for expansion and if expansion plan then ways of expansion.

## MATERIALS AND METHODS

The objective of this research was to identify the profile of the women entrepreneurs in informal economy

in Dhaka city. More specifically the demographic profile (age of starting business, marital status while enter in to the business, level of education) A structured questionnaire was used to collect information. A non probability convenience sampling is used for this study. A total of 38 women entrepreneurs were chosen (14 women from formal sector and rest from the informal sector) and questionnaire was used by the researcher to collect the information. Using the questionnaire were filled by the women entrepreneur in presence of the researchers.

## RESULTS AND DISCUSSION

**Profile of the women in informal sector:** Women in informal sector start business for independence. The idea for business is their own (most of the cases). Their business size is small and operating from their own home the neighboring peoples are their main customers. The starting capital is the savings. The profit margin is very low as the operating expenses are also very low. Most of them have interest to expand their business though way of expansion methods are different. The profile is presented in the Table 1.

**Reason to start business and source of business idea:**

The majority of the respondent said that because of independence they start business (53 percent). The other reasons are to get rid of unemployment (13 percent) and to maintain family (19 percent). The reasons to start business are different but the major source of idea for business is their own. The findings are shown in Table 2.

**Business permission and business location:**

Most of respondent do not have any formal authorization for business. Only 37 percent respondents said that they took approval from the formal authority to run the business. But both the category (with permission and without permission) said that they conduct the business from their own space (mostly from their home). As the business size is very small and with very few numbers of hands they run the business so small space is enough to do the business. The findings are shown in Table 3.

**Nature of employment:**

Both form of women business (authorize and not authorization) have more female employees compare to men (65 percent female for authorize permission business and 83 percent female employees for not authorization business) But there is no significant relation between this two variables (The Pearson correlation value is 0.216). Result is in Table 4.

**Salary expenditure of the business:**

Informal business have to pay less money for salary (62 percent employees salary is below \$71. Where as in formal sector the salary range is \$71 -\$287 for 57 percent cases. But in both the sector salary expenditure is the major source of business expenditure. Business size is small and market is locally

Table 1: Profile of women entrepreneurs in informal economy

S1	Question	Informal women entrepreneur
1	Reason to start a business	For independent profession
2	Source of Idea for Business	Own Idea
3	Formal permission from the Authority	No
4	Male female ration in employment	More female
5	Source of Starting capital	Own savings
6	Monthly expenditure for business	More than 20,000 taka (approximately \$288 dollar)
7	Monthly profit	Below 10,000 taka (approximately \$145 dollar)
8	Plan for current business expansion	Yes
9	Linkage with any trade association	No
10	Education	Masters (16 years of education)
11	Marital status	Married
12	Age	25-40

Table 2: Reason to start business and the source of business idea

Reason to start business	Percentage of the reason	Major source of idea
Unemployment	13 percentage	80 percent idea is their own 20 percent idea from other business
Maintain family	19 Percentage	100 percentage have their own idea
Independence	53 percentage	65 percentage have their own idea 15 percent have idea from friends 15 percent from other business 5 percent from government agency
Others	15 percentage not interested to disclose the reason	33 Percent have their own idea 16Percent from friends

Table 3: Women entrepreneurs and their business location

Nature of business	Percentage	Business location
Formal Sector	37 Percent of the respondent	78 percent at own space 22 percent rented space
Informal sector	63 percent of the respondent	42 Percent own space 25 Percent rented space 13 Percentage no fixed space 20 percentage did not answer
	Do you have government permission for your business?	How did you get the space for your business?
Person		
Correlation	1	.419(**)
Sig. (2-tailed)	.	.009
N	38	38

There is a strong correlation between authorize permission and business location . The Pearson correlation value is 0.419\*\* ( Significant at 0.01 level). \*\* Correlation is significant at the 0.01 level (2-tailed).

concentrated ( From Table 3 it is seen that most of the women entrepreneurs both formal and informal sector operated business from their own spaces.) So salary expenditure is one of the major operating expenses of business cost. The details breakdown of the salary expenditure is shown in Table 5.

Table 4: Pattern of approval and pattern of employment pattern

Nature of business	Percentage	Employee pattern
Formal sector	37 Percent of the respondent	36 Percent male 65 Percent female
Informal sector	63 percent of the respondent	16 Percent male 83 Percent female

Table 5: Salary breakdown for Informal and Informal business

Nature of Business	Percentage	Salary expenditure per month
Formal Sector	37 Percent of the respondent	28 percent below \$71 57 percent within (\$71- \$ 287) 15 percent more than \$ 287
Informal Sector	63 percent of the respondent	62 percent below \$ 71 25 percent within (\$71- \$ 287) 13 percent more than \$287

Table 6: Business performance of the respondent

Nature of Business	Percentage	Last year (2007)business performance
Formal sector	37 Percent of the respondent	64 percent satisfied 36 percent below the average
Informal sector	63 percent of the respondent	80 percent satisfied 20 percent below the average

Table 7: Problems in business

Types of problem	Formal women entrepreneur	Informal women entrepreneur
Lack of family support	35 percent	9 percent
Govt support	43 Percent	17 percent
Gender biased role of the society	0 Percent	13 percent
Law situation problem	0 percent	12 percent
Others (did not want to disclose)	22 Percent	49 percent

Table 8: Business expansion decision

Expansion decision	Formal women entrepreneur	Informal women entrepreneur
Decide to expand business	93%	92%
Not interested to expand business	7%	8%

Table 9: Way of expand business

Expansion way	Formal women entrepreneur	Informal women entrepreneur
Market penetration (sale more product to same target group)	7%	17%
New product development	29%	30%
Export to international market	22%	17%
Others	42%	36%

**Business performance:** 64 percent with valid authorization are happy with their business performance whereas this rate is almost 80 percent for women entrepreneurs in informal business (without valid authorization). In this survey satisfied means there is no loss in business for the last year. If there is loss women entrepreneurs called it their business performance is not satisfactory. Business performance of 2007 shown in Table 6.

**Problem in Business:** Regarding types of problem in business interesting things is that having authorize permission for business the women entrepreneurs in formal economy did not receive any support from the government. Problem in government support means lack of loan facilities, difficulties to get trade license and difficult to get tax certificates. On the other hand the major problem for the women entrepreneurs in informal economy is not specific . Most of the women entrepreneurs did not to disclose regarding types of problem they are facing in business (Table 7).

**Business expansion decision:** Both formal and informal sector women entrepreneurs are expressed to expand their business . The response is same in both cases. The result is shown in the Table 8.

**Area of expansion:** Both sectors women entrepreneurs are interested to expand their business. But there is no significant similarities in way of path. During the research time a significant portion women entrepreneurs are not decided the way they want to expand. The details result is shown in Table 9.

### CONCLUSION

According to SIDA's 2004 fact finding study it is said informal economy is related with respective countries economic condition. Economic recession increase the informal business where as its effect decrease in economic booming. According to Fall, 1989; ILO, 1992; Magomolo, 1992; Ntola, 1989; Segal, 1990 informal sector represents little more than survival activity, and is not a source of economic dynamism. Informal sector provides a type of training ground or apprenticeship, despite that training is insufficient to compete for formal sector jobs.

Women's owned business statistics is not widely available for developing countries like Bangladesh. It is known that women entrepreneurs are maintaining steady flow of work since mid 70's. From this survey it is found that there is very little difference between formal and informal women entrepreneurs. Both sector women are entered in to the business for independence and operation cost is low and easy entry in the business. Another important findings is that both the sector is not generation any significant employment. The majority of the employees in both the sector are women but it does not an indication of employment generation because per business the total number of employees is around 10-15. In Dhaka, the informal and formal women owned business does not improve the employment generation situation . Formal women entrepreneurs are facing different problem which hindering their growth to expand their business. The government or proper authority must formulate policy to eliminate all these problems which will eventually encourage the informal women entrepreneurs to shift in to the formal economy.

But it is true that women in both the segment become independence. Women entrepreneurs in both formal and informal sector have an entrepreneurial potential and both can contribute more if the different obstacles are removed and informal women entrepreneurs can enter in to the formal economy. Both Public and Private initiative can improve the situation. This study is based on very limited women entrepreneurs and based one area so extended sample and wide area is recommended for future research.

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