

CHARACTERISTIC OF INFORMAL MICRO-ENTREPRENEURS IN MALAYSIA: A REVIEW

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Abstract- Informal sector is a major part of Malaysian economy and there is still insufficient information about the informal economic activities in Malaysia. In the term ‘informal economy’ became current as a label for economic activities which take place outside the framework of corporate public and private sector establishments. According to International Labor Organization (ILO), the common characteristics of informal enterprise includes the ease of entry, reliance on indigenous resource, family ownership, small scale operations, labor intensive and adaptive technology, skills acquired outside of the formal sector, unregulated and competitive markets. The objective of this study is to review empirical studies on informal economic activities to identify the strength and weakness of informal micro-entrepreneurs in Malaysia. Based on the findings, this study intended to design a conceptual framework to explain the association between entrepreneurial traits and competencies on the performance of informal micro-entrepreneurs in Kelantan, Malaysia.

Keyword: Informal Economy, Informal Traders

1. Introduction

In recent years, there has been an increasing interest in informal sector in both developed and developing countries around the world. Informal sector be the important sector for economy of countries especially for developing countries. Before explore more about the term of informal economy, we must know the history of the coming out of the informal economy term. According to Organizational Labor Organization, the phrase of “informal sector” is coming out in 1972. It is the origin scope of economic development at 1950s and 1960. After the unexpectedly successful rebuilding Europe and Japan next to the second war, the parallel sort of slow economy-building effort also is applied into newly developing countries (ILO, 2014)

There are many term that conclude by researcher to refer the part of informal economy activities. Underground economy, shadow economy, irregular economy, unobserved economy, and hidden enterprises are the term that usually used by researcher to refer the informal economy. They have also forward-thinking an assortment of informal economy definition (Webb et, al., 2012). In

most ASEAN agricultural economies the presence of informal enterprise is ordinary to see like the existence farms like casual producers of cash crops such as coffee, cocoa, and spices, market stalls and street vendors, casual trading enterprises and the workers engaged off the books by farms, plantations, and processing facilities. There is still no single definition nor reliable measure of enterprise informality used among neither ASEAN Member States yet (Nathan, 2013).

Basically in Malaysia, informal economy is one of the important methods for the economic system. It is the contribution factor toward developing of some areas in the country. Malaysian people are being usual with the type of business weather in urban or rural community area. Example the types of the business in the informal economy in Malaysia are known as *pegerai* and *penjaja*. Foreigner and tourist also saw the informal economy as one of the attraction in the place or also called romantic light which is make the environment created and alive (Rohaya, 2007). In Malaysia, major of the informal trader doing the business in day and night that we call as *Pasar Tani* at daytime and night market (*Pasar malam*) for night operation. Hence the activities are always around and for Malaysia it is common environment everywhere in the states.

In the term, informal economy became recent as a label for economic activities which take place external the framework of corporate public and private sector establishments. The definition given by International Labor Organization (ILO) in Kenya report 1972 and the definition by Malaysian perspective of the informal economy are:

Table 1: Informal economy definition

| Definition by ILO | Definition by Malaysian perspective |
|--|---|
| <ul style="list-style-type: none"> • The ease of entry • Reliance on local resource, family ownership • Small scale operations • Labor intensive and adaptive technology • Skills acquired outside of the formal sector • Unregulated and competitive market <p>Sources : Bangasser (2000)</p> | <ul style="list-style-type: none"> • Unregistered from companies commission of Malaysia • All at least one product of services is for sale or barter transaction • Hired ten workers or less • The workers are not covered by social security • The informal economy involves in nonagricultural activities. <p>Sources : Razaman and Ponggot (2009)</p> |

The legal and illegal measurement of the informal economy differs among countries. Regarding to labor legislation, each country must have their own standards and legal requirement regarding the incentive of International Labor Organization rules (Bangasser, 2000). For Schneider (2012), informal economy is a shadow economy. There are two types of the economic activity which is illegal employment and the homemade of goods and service production. These two type economies activity avoided the illegal activities such as crime, human trading or drug production. The researcher also stated that the goods and service from informal economy are all

market based on legal production but being deliberately enclosed from public establishment for some reason.

The reason are such as to avoid the taxes, avoid the payment social security contributions, avoid having to meet certain legal labor market standards, such as minimum wages, maximum working hours, safety standards, and also avoid complying with certain administrative obligations, such as completing statistical questionnaires or other administrative forms. Illegal activities such as smuggling and prostitution are not accounted in Malaysia economy. But the record of the type of informal economy will be recorded by enforcement authorities such as police department. It is because the activity will not account as economy development contribution although the party of doing that activity got payment and earning for themselves but it's the illegal activity. (Schneider, 2012)

The objective of this study is to review empirical studies on informal economic activities to identify the strength and weakness of informal micro-entrepreneurs in Malaysia. Based on the findings, this study intended to design a conceptual framework to explain the association between the entrepreneurial traits and competencies on the performance of informal micro-entrepreneurs in Kelantan, Malaysia.

2. Informal economy in Malaysia

Since Asian financial crisis on 1997-1998, Malaysia' economic engine become slowing. As an economic leader in Asian country, Malaysia's position become tumbling because of the crisis lead economy growth is very slow compare with other crisis affected country and the investment still can't covered the crisis. To be a high income country status, Malaysia needs drastic change for economic development. Government had set up the New Economic Model (NEM) for Malaysia transformation from a middle income to radical nation by 2020 (Council, 2012).

While the economy crisis, most people loss their job and find the other way to ensure their income for surviving. Then, people start to do business in that period especially in informal sector because the ease of the entry. Business and entrepreneurship is essential for every country economy and development. Entrepreneurships regard as an essential in develops the society and companies through wealth creation. Entrepreneurship related with innovation creation. The process include such as functions, behavior, intentions and others (Hansemark, 1998).Entrepreneurial activities are deep-rooted into informal economy and formal economy of economy developing nations (Olarenwaju & Olabisi, 2012).

In a review of street trading in Asia, Bhowmik (2005, p. 2264) write that people who are not having high skill and good education migrate from the village to urban area looking for better work but most formal sector are not suitable to them. Then, they joined the informal sector. There are also those who are loss their job in formal sector then contribute into the informal sector for pursue their life. In Malaysia, while the economy crisis, people also start to migrate from village to urban area in order to find better job. But effect of the crisis, many people lost the job and it had driven most people to join the informal sector. The informal trader had struggle for

survive in challenging urban area. Not every people can follow the flow of the modernization that occurs in Malaysia and those people joined the informal sector for their life sake. The improvement of the informal sector also parallel with the modernization and it is effort of the traders that not give up in the informal sector (Nor Aini & Siwar, 2003).

There is also some perception that informal economy only operated by the poor family and it operate at the local areas but it is wrong assumption because in urban areas also there are a lot of type of informal trader can be found. Both of man and women participate in the informal sector. In other developing country like Brazil and India, they show that participation of women in informal sector is higher with 48.6% compared to 31.7% men participation. India also has high percentage of women in informal job with 94% participation in the informal sector (Statistic, 2012) . Different with Malaysia, the women participation is still low than men. In 2011, women participation is 47.9 % differ with men which is 79.7 %. However, their participation is essential in family developing economy. There are also few reason obtain from Malaysian women when they had been asked why they do not work in formal sector. The reasons are such as doing housework, further study and others commitment that avoid them to join the formal sector. Women informal trader in Malaysia basically set up the business of informal sector like be a tailor, kuih-sellers, doing online business (Ministry of Women, 2014)

The environment of the informal economy itself had help people to get some earning for their life. Informal traders are not paying the taxes because of the small type of enterprise that they operate. So all the capital is the own self-responsibility. Same to do with the profit of the activities, informal trader get it for themselves and do not need to pay other government expenses like a tax.

Many type of informal business can be found in Malaysia in different place, different type of goods sold, different type of manufacturing but they are all same under the license of doing business. For example, people who selling at the stall, selling at the night/day market, selling from their home, doing online business and others. People whom want to start business whether in small or large size need to register with Malaysian registration authority that is Companies Commission of Malaysia (SSM). SSM is responsible department for every person or party who want to start up the business.

3. Characteristics of Informal Entrepreneur

In life, successful is one of the rewards for human satisfaction. Abraham Maslow had identified five stage of human need. Beside the basic need of human life and others, the fifth level is self-actualization which is the top level of the Maslow hierarchy. It describes people who need success as the reward for themselves as their own satisfaction and also to get be respectful from others (Maslow 1943). Same with business, that entrepreneur are work hard and ambitious to achieve successful in their business. In general, achievement of goal and objectives in whatever things of human life is kind of the successful. Successful still a key term of field management in business life although it not clearly specified. Success and failure can be interpreted as measurement of good or otherwise in managing the business. Firm's financial performance also

is used to evaluate the successful of the business. Researcher found that characteristic of entrepreneur is the essential role to drive the business successful (Islam et, al., 2011).

The success or failure of the enterprise is depending on the entrepreneur characteristic. Seeking and having accurate awareness about business opportunities will give the huge advantage for the success of the enterprise (David Jawahar & Nigama, 2011). In developing country, jobs licensing is rare and most of population make a living in informal sector. They are define as innovators, skilled at surviving and also growing in the informal environment (Ludher, 1995)

Williams and Gurtoo (2011) define the characteristic of informal entrepreneurial is positive thinker person. They had positive mind set when join the sector by ignoring the structure of relegation representation, they are confident and believe that they have the future in the informal sector. Islam et, al., (2011) found that entrepreneur characteristic consist of demographic characteristic, individual characteristic, personal trait, entrepreneur orientation and entrepreneur readiness. Age, gender, and individual background such as education and working experience of the entrepreneur is the example of demographic characteristic that can influence the intention and entrepreneur effort toward the informal economy.

Then, self-confidence and the determination can be referred to entrepreneurial personalities and traits. Researcher defines entrepreneurial orientation through the independency, innovative, risk taker, pro-activeness, and competitive aggressiveness plus having motivation in their self while doing the business. The fourth characteristic is mean self-efficacy which is meaning of the entrepreneurial readiness. Entrepreneur is ready to start up and manage the business, manage all the risk and obstacle that will exist while doing the business.

According to Collins (2011), persistently seeking new ways in enhancing entrepreneurship process, resources and product offering with give the value added product to customers is the character of the successful entrepreneur. Entrepreneur need to ensure they are good manageable of the resources and finance, customer and market development continuously in order to maintain the enterprise consistently success (Chittithaworn, Islam, Keawchana, & Yusuf, 2011) Independency in order to start and manage the business reflects the characteristic of the informal trader. They are independent to operate in the informal sector(Hartati, Juwita, Karim, & Bayu, 2015). Like one of the women informal trader case reported by Ludher (1995), there's a women informal trader, Govinddamah who are start the informal business by herself. She got the idea to sold *nasi lemak* in order to help her husband that just lost the job. This show one of the independence characteristic by entrepreneur of the informal sector. She used the skill that she had and the product sell is familiar with the Malaysian community.

4. Reasons for operate informally

There is a consensus among social researchers that economy downturn is the main reason of the development and firmness of the informal sector. The unemployment and less of capital had driven people towards informal economy sector (Gerxhani, 2004). The entrepreneur may enter informal sector because lack of choice for their job career. The dynamics characteristic in entrepreneurship may have transformation of the working environment and the widespread

explanation of informal sector that draws upon the marginalization approach clearly ignores business orientation or the way they influences people and work conditions in creating their own significant dynamics (Williams & Gurtoo, 2011).

The characteristic of the informal economy itself had contributed the increasing of the informal trader. Although there is no accurate definition and measurement of informal economy, informal economy can be evaluate by the ease of entry and unregistered business activities. The international labor agency and other researcher stated that the lead of the informal economy is because the ease of the entry in the sector. Informal trader can enter and left their business whenever they want because they are not legally registered and all responsibility is on their self (Afolayan et, al., 2011; Gerxhani, 2004).

Then, the freedom, independence and the flexibility of the informal economy sector had driven people to contribute in the informal sector rather than formal sector. The informal trader want to be the lead for their enterprise without been tie with others rule and regulation and they can explore plus show their own creativity while handle the informal activities (Gerxhani, 2004). For Malaysia, most people who are engage in the informal sector are women. Although man is the family leader and responsible to work for the family, women now days also had an opportunity to help their husband and improve family economy. The initiatives and intention in order to increase their personal or family economy development had participate women into the informal sector population (Ministry of Women, 2014).

As we know, the informal economy is didn't legally registered and this will make the informal trader are except from taxes payment. Gerxhani (2004) stated besides the taxes, governmental over-regulation such as the labor conditions, quality regulations and the production limit for the formal sector is need high cost to operate had encourage people to choose informal sector rather than formal sector that had many rule and regulation. Due to the slow of technology development and the cheap of labor cost before this indirectly merge and growth the informal sector.

Furthermore, informal economy also was associated with the migration. The concept of migration by Alfoyan et al. (2011) is the changes of residence to the new place or into different area. When people start to migrate to new places, they need to find the way to survive at the new environment. The characteristic of informal economy which is ease of entry and also can be shutdown whenever the entrepreneur wants had driven people to easily enter and left the informal economy. The mobility of the informal sector cause the huge existence of the informal trader and it can't be measured and under controlled.

According to Ministry of Women (2014), for women informal trader ,the reason join the informal sector is the flexibility of the time. They can arrange their time because most need to care for the household whether married or single mother. Survey had shown that women do not have the childcare arrangement properl

5. Strength and weakness of Informal Entrepreneur

5.1 Strength

Informal sector is essential for the economy in developed country and developing countries. Informal sector can be measured from Gross Domestic Product (GDP). The informal economy describe those people who make stuff at home, street vendors and unregistered worker and so on as informal employment worker and they denote a large of number in the workforce. As a major of national economies of Asian countries like other regions in the world, the economic activity of worker in the informal sector can be represent by the Gross Domestic Product (GDP) (Sachiko, 2011). In the country that had high population, informal sectors offered the growing of the labor workforce. Not only toward the economy development, informal economy also have contribution in the job creation, productivity and also the income generation.(Development, 2002). Although the net effect is unclear, informality affects labor market products, productivity and growth through several channels. There are economic implications associated with tax revenue losses, which makes the informal economy particularly related for OECD countries faced with a period of financial alliance (Andrews, Sanchez, & Caldera Johansson, 2011).

In Malaysia, informal sector had improve and growth year by year. Their contribution in GDP also show increase percentage. Park (2005) reported that in the Malaysian environment, informal economy contributed to 32.3% of the GDP. Informal economy must being pay attention by government in order to offered the suitable policy for the informal trader in ensure the survivor of the operation. With the good policy and support from the government or the enforcement authorities, informal sector can be more improve and help the economy nation's development not only for the income gained, but also help in reduce the jobless citizen in the area.

Nor Aini and Siwar (2003) stated that informal sector not only created the labor workforce but had increase the demanding of the skillful and half skill labor. The technology used by the most informal trader also affordable with their level of knowledge and the type of business. They usually used the local resources and it directly improves and enhances our local resources demand and supports our local resources.

5.2 Weakness

Then, informal economy had understood as set of economy activity, business and workers that are not legally protected by the law of the state. Informal employment had identified into subdivisions which is informal self-employment and informal wage employment. Informal self-employment is including employers in informal enterprise, had account worker in informal enterprise and also consists of family worker. For informal wage-employment, the employees are hired without legal protection by law like the formal enterprises do (Chen & Martha, 2013) .The unsafely protection especially for the informal trader in the informal economy is one of the big limitation for them. They have no security from the government because of their characteristic that excludes tax payment. Hence the government had less pay attention for the informal trader community of the social side responsibility.

Besides that, the lack of access such as information, credit, skill and technology release their opportunity in other economy type or in government workplace. There are also limitation of time, space and lack of infrastructure include childcare especially for women trader level of productivity and the income opportunities (Ministry of Women, 2014). The government of enforcement authorities need to take the limitation and problem occur among informal trader seriously because they also contribute toward nation economy. Then, the informal trader also had their right to get social protection or the support like formal employee as citizen in the country. Usually those who operate in informal sector had money constraint. They choose the informal because the ease of entry and can set up the business at the potential area.

However, the group of informal sector still had difficulty to get the capital. Enforcement authorities should opened more opportunity for them who want to start up the business or need the financial support by offer them the safe way in getting money for the capital of the business. It also can avoid some people who had intention doing business borrowing the money from the wrong financial resources like loan shark. Other problem might exist to the informal trader if they are not affordable to pay back the loan. In order to prevent any uncertain case happen, the trader should had known where they can get the financial support in the right way. (Ministry of Women, 2014)

6. Conclusion

The phrase of informal sector came out in 1972; its origins reach back into the economic development efforts of the 1950s and 1960s. After the Second World War, Europe and Japan success in rebuilding their economy and the effort also be applied to the newly emerging countries in the Third world colonialize country (Bangasser, 2000). The informal economy is a difficult subject to tackle exactly because there are so many definitions of it. But major scholar that defines the informal agreed that informal economy is the sector that are not registered to the government and had no protection of by legal authorities (Sachiko, 2011; Nathan, 2013; Andrews et al., 2011).

Habibullah and Eng (2006) agreed with a simple definition of the informal economy as a part of the gross domestic product absent, due to non-reporting and/or underreported in the official statistics. The final includes the production of and trade in illegal products and services, unrecorded economic transactions that are due to the immature system of national statistics, as well as barter transactions and economic activities carried out by households. Although the informal traders are not registered and not paying taxes, government's still not taking law act toward the trader. It might be because of informal economy had contributed into economy development indirectly although they are only in micro enterprise size (Nor Aini & Siwar, 2003) Nathan (2013) stated that enterprises that generally operate out of government oversight that cannot register or not register will official call as informal economy. If they operate in legitimacy framework which is register and had the license, and when the activities been published toward public sector whether small or large entities, they had a good opportunity for survival and development. Informal sector is important towards economy development. Although there is still no accurate data about the size of informal economy in Malaysia, they still had contributed into

nation's economy. Nor Aini and Siwar (2003) stated that informal traders have no credit access, foreign exchange, tax relief but still have surplus that enhance the economy development, the informal sector do use a small of capital rather than formal enterprise and it can help country in saving the outsourcing of the large amount of capital.

Although informal sector is not being the main sector for Malaysian economy contribution, their participation in Malaysia economy needs to be concerned. It is because in Malaysia environment the informal trader is very familiar and can be seen at anywhere. For example, they opened their stall along the street and start running the business similar time with the formal sector working hour. Some of them operate at the early morning and end the operation at night and otherwise (Zulhayati 2010). The famous market that operates by informal trader in Malaysia is such as Pasar Siti Khadijah, (Kelantan), Pasar Payang (Terengganu) and others around Malaysia state. Most community in Malaysia like to buy and having deal with the informal traders because of their easy reach and near in community population. The price of their product also not expensive and affordable for community (Zulhayati 2010).

Hence, informal economy can be described as unregistered business and have no legal protection. Yet it still encourage people choose to operate in informal sector. The ease of entry and the available place to do the trade give opportunity to people in working out their business. Parallel with modernization in small developing country such as Malaysia, the informal economy also need to work hard and improve their product and service. It is to ensure the modernization didn't extinct their sector.

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