Hidden entrepreneurs: Informal practices within the formal economy

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**Abstract:**

The focus of this study is ‘hidden entrepreneurs’ who bridge formal and informal economies. While their business activities are legal, the governance and ownership structures of their organizations are illegal. This qualitative study draws upon institutional theory to illuminate the emergence of international hidden entrepreneurs in Oman as an unintended response to institutional configurations, and to examine its perceived effects on the domestic entrepreneurial ecosystem. Hidden practices, shaped by the dynamics of institutional environments, are perceived negatively by policy makers and domestic entrepreneurs, but offer potential contributions for entrepreneurial development. In-depth interviews with entrepreneurs and stakeholders reveal how hidden practices are shaped by the dynamics of regulatory and social institutions. Loopholes, or flawed institutional configurations, and prevailing sociocultural factors drive the emergence of hidden practices. The study contributes to informal entrepreneurship literature and policy-making through highlighting the relevance of international entrepreneurs in enabling entrepreneurial ecosystem development.

**Key words:** hidden entrepreneurs; informal economy; institutional environment; developing economy; Oman; qualitative

**Introduction**

Policy makers often introduce new regulations with the aim of developing stronger small- and-medium-sized enterprise (SME) sectors that can contribute to economic growth ([Dennis, 2011](#_ENREF_19); [Williams, 2013](#_ENREF_85)). Despite the positive intentions to reshape institutional environments, unforeseen outcomes from insufficient regulation design can undermine these SME development policies and lead to the emergence of informal business activities and a hidden enterprise culture ([Williams and Nadin, 2012](#_ENREF_78)). We extend the work of Williams and his colleagues (e.g., [Williams, 2008](#_ENREF_74); [Williams and Nadin, 2012](#_ENREF_78); [Williams and Round, 2007](#_ENREF_79); [Williams, 2010](#_ENREF_75)) on hidden enterprise culture, and introduce the notion of ‘hidden entrepreneurs’, to examine the specific case of international individuals active in Omani business ventures. While their business activities are legal, the governance and legal structures of their ventures are illegal as they use local Omani nationals as a front to circumvent laws that prohibit non-Omanis from owning domestic ventures within the Sultanate[[4]](#footnote-4). [Williams (2008)](#_ENREF_74) has indicated that most small enterprises engage in the informal as well as the formal economy despite government attempts to undermine the informal activities. The motivation of these individuals is to increase profitability by circumventing tax capture and regulatory compliance in some venturing activities. In the example of Oman, hidden entrepreneurs emerged as a response to government efforts to ban foreign entrepreneurs, to enforce labor regulations, reduce competition for domestic incumbents and minimize the transfer of revenues overseas. As such, we argue hidden entrepreneurs straddle formal and informal economies.

Empirical studies on the institutional environment in various countries show that institutions, including regulatory and social institutions, can influence the behavior of entrepreneurs when pursuing entrepreneurship (e.g., [Aidis *et al.*, 2008](#_ENREF_2); [Williams and Vorley, 2014](#_ENREF_86); [Williams and Shahid, 2016](#_ENREF_82); [Williams and Franic, 2016](#_ENREF_76)). The extant literature has emphasized the presence of institutional loopholes, which can be viewed as unintended institutional configurations that enable the informal economy to flourish (e.g. [Webb *et al.*, 2013](#_ENREF_67); [Schneider, 2002](#_ENREF_55)). However, little is known about how international hidden entrepreneurs exploit these loopholes to develop collaborative relationships with domestic entrepreneurs.

Omani policy makers view hidden entrepreneurs as undesirable because they undermine government plans to diversify the economy and rebalance Omani interest from public employment to entrepreneurship, to develop a local entrepreneurship ecosystem. However, the academic literature indicates that this informal activity can be used as a launchpad to develop new entrepreneurial capabilities and to test potential venture ideas ([Bennett, 2010](#_ENREF_11); [Khavul *et al.*, 2009](#_ENREF_36); [Williams and Schneider, 2016](#_ENREF_81)). While academic studies have examined the potential of the informal economy for improving low income areas ([Hudson *et al.*, 2012](#_ENREF_30); [Siqueira *et al.*, 2016](#_ENREF_60); [Maloney, 2004](#_ENREF_42)), they have overlooked the role of international entrepreneurs in contributing to the development of the formal and informal economies.

Hidden entrepreneurs require a local resident who is willing to become an owner/manager and undertake a passive or non-existing role in the governance and the day to day activities of the enterprise (i.e. passive entrepreneur). Local Omanis accept that their identity will be used to conceal the role of the foreign entrepreneur, in exchange for a fixed financial payment. In contrast, the hidden entrepreneurs exercise full control and power over the venture, despite it being illegal for them to do so, as they are not listed in the ownership register[[5]](#footnote-5).

This study aims to explore the emergence of hidden entrepreneurs in Oman in response to recent regulations that seek to prohibit the hidden activities of non-Omani entrepreneurs, with the objective of protecting the domestic entrepreneurs. In doing so, we examine the perceived negative effects but also the overlooked potential contributions of the collaborations that could emerge from this informal economic activity. We address the following research questions:

* Who are hidden entrepreneurs and how do they bridge the formal and informal economies?
* What are the perceived effects of hidden entrepreneurs on local entrepreneurs and the wider economy?
* How can international hidden entrepreneurs contribute to the Omani entrepreneurial ecosystem?

This paper contributes to the informal entrepreneurship literature by introducing the role of hidden entrepreneurs who bridge the formal and informal economies. We also highlight the perceived challenges as well as the opportunities that arise from hidden practices. The remainder of the paper is structured as follows: it discusses relevant literature, outlines the methodology, and examines the findings. The final section concludes with policy implications, limitations and further avenues for future research.

**Literature Review**

***Understanding hidden entrepreneurs***

Informal economies represent a large share of the world’s business activities. The informal economy accounts for 13.4% of the GDP in OECD countries, 37.6% % in transition countries, and around 27% in the Middle East and North Africa region, as estimated in between 1999 and 2007 ([Schneider *et al.*, 2010](#_ENREF_57)). From an employment perspective, two-thirds (1.8 billion) of global employees work in the informal sector ([Jütting and Laiglesia 2009](#_ENREF_34)). Despite the significance of informal economy especially in developing countries ([ILO, 2014](#_ENREF_33); [Ilahiane and Sherry, 2008](#_ENREF_32)), there is still little understanding of business activities within the informal sector ([Webb *et al.*, 2014](#_ENREF_68); [McGahan, 2012](#_ENREF_43)).

The extant literature has shown diverse examples of informal business activities such as violation of registration regulations, tax evasion, violation of labor and environmental regulations, and production and selling of counterfeit goods ([Schneider, 2002](#_ENREF_55); [Webb *et al.*, 2013](#_ENREF_67); [Williams and Nadin, 2012](#_ENREF_78); [Webb *et al.*, 2014](#_ENREF_68)). The growing literature on the informal economy has sought to define informal economic activities and differentiate them from formal activities (e.g. [Webb *et al.*, 2009](#_ENREF_69); [Williams, 2008](#_ENREF_74); [Thai and Turkina, 2014](#_ENREF_63); [Williams and Schneider, 2016](#_ENREF_81)). Researchers have argued that informal entrepreneurship includes ‘any remunerated activities not declared to the authorities for tax, social security and /or labor law purposes when they should be declared’ ([Williams and Schneider, 2016: 6](#_ENREF_81)). In this sense, hidden entrepreneurs’ practices can be considered a form of informal entrepreneurship as their practices do not only violate ownership regulations, but also labor laws as foreign entrepreneurs exploit their work permits to become hidden entrepreneurs in the local economy. .

Recent research has shown that enterprises do not necessarily fit into one category (formal *vs.* informal), as business activities can have different degrees of (in)formalization as shown in studies of Ukraine ([Williams and Round, 2007](#_ENREF_79)), England ([Williams, 2010](#_ENREF_75)), the Dominican Republic ([De Castro *et al.*, 2014](#_ENREF_17)) and Pakistan ([Williams and Shahid, 2016](#_ENREF_82); [Williams *et al.*, 2016](#_ENREF_83)). This is similar to the case of hidden entrepreneurship, where the business is officially registered and produces legitimate goods and services, but breaches both ownership and labor regulations. Hidden entrepreneurs retain full control of the business through a convoluted trust relationship with passive local partners, where the latter operates as the legal face of the business, concealing the former. Although the practices of hidden entrepreneurs are consistent with informal economy definitions, they are understudied in the burgeoning literature of informal entrepreneurship. This warrants scholarly attention to examine the notion of hidden entrepreneurs who straddle formal and informal economies. This paper aims to address this knowledge gap by examining the causes as well as the pros and cons of their existence in the domestic entrepreneurial ecosystem.

Moreover, growing academic interest in the informal economy has predominantly focused on developed nations that are characterized as benefitting from solid and mature institutional structures that enable more efficient markets. Yet, more attention should be given to the informal entrepreneurship activities within developing economies that suffer more deficiencies in their institutional configurations ([Webb *et al.*, 2014](#_ENREF_68)). Therefore, examining hidden entrepreneurs in Oman can be a valuable addition to the informal economy literature.

The widespread existence of hidden entrepreneurship activities in Oman and the fact that their profits are often transferred outside the Omani economy cause growing concern to the policymakers of Oman who view these partially legal ventures as undesirable; causing disturbances to the legitimate entrepreneurs (i.e. active entrepreneurs) and the national economy ([Al-Nasseri, 2015](#_ENREF_5)) (See Figure 1). Despite these criticisms, hidden entrepreneurship activities persist, generating positive outcomes for the global economy, large returns for hidden entrepreneurs and income for local business partners. The burgeoning informal economy literature posits multiple benefits of informality for entrepreneurs. It is viewed as a means to overcome the rigid regulations and the administrative costs that can undermine the profitability of the business ventures ([Maloney, 2004](#_ENREF_42); [Williams and Round, 2007](#_ENREF_79)) as well as acting as a ‘stepping stone’ that helps firms test their business models before they move to the formal sector ([Bennett, 2010](#_ENREF_11); [Khavul *et al.*, 2009](#_ENREF_36)). Furthermore, informal activities are considered a solution to the inefficient formal market ([Webb *et al.*, 2013](#_ENREF_67)) as informal entrepreneurs are known for their efficient use of resources which can lead to improved economic and social stability ([De Soto, 1989](#_ENREF_18)).

Hidden entrepreneurship practices are also socially accepted within the Omani communities, although the government’s perception is that it undermines the main policy objective of developing local entrepreneurial capabilities ([Supreme Council for Planning, 2016](#_ENREF_62)).

[INSERT FIGURE 1 AROUND HERE]

***Hidden entrepreneurship from an institutional perspective***

Hidden entrepreneurs are key actors in the Omani informal economy. Although the informal economy literature is extensive, studies have focused on various illegal activities, but not the illegal form of ownership, governance structures and illegal labor practices, which define hidden entrepreneurship. In explaining the emergence of informal entrepreneurship, [Webb *et al.* (2013)](#_ENREF_67) have demonstrated that there are multiple theories that can work in complementarity, such as institutional theory, motivation-related theories, and resource-allocation theory. Others have used opportunity versus necessity driven entrepreneurship as a basis to explain the informal economy (e.g. [Adom, 2014](#_ENREF_1); [Williams and Youssef, 2014](#_ENREF_84); [Williams and Round, 2009](#_ENREF_80)). However, starting from the premise that entrepreneurial activities are very much influenced by the surrounding context in which they are embedded ([Welter, 2011](#_ENREF_70)) and the fact that informal economy is considered institutionally embedded ([Estrin and Mickiewicz, 2012](#_ENREF_24)), this study argues that hidden entrepreneurs’ activities can be well-explored through the lens of the institutional theory which has proved useful for analytical purposes within the informal economy literature (e.g. [Webb *et al.*, 2009](#_ENREF_69); [Williams and Shahid, 2016](#_ENREF_82); [De Castro *et al.*, 2014](#_ENREF_17)). [Webb *et al.* (2009)](#_ENREF_69) conceptualize informal economic activities from institutional perspective as the ones that exist outside the formal institutional boundaries, yet, are legitimate within the informal institutional boundaries.

The starting premise of institutional theory is that the beliefs and actions of individuals and groups (i.e. hidden and passive entrepreneurs) are guided and shaped by the institutional environment ([Scott, 2014](#_ENREF_59)). However, it is important to acknowledge here the two broad perspectives of institutional theory before engaging in the discussion of the emergence of hidden entrepreneurs; the economic and sociological approaches. The economic perspective holds that the society imposes formal and informal institutions that determine what is considered legal and/or legitimate economic activity ([North, 1990](#_ENREF_48); [Webb *et al.*, 2009](#_ENREF_69); [Webb *et al.*, 2013](#_ENREF_67)). While formal institutions are the codified rules and regulations, the informal institutions are the shared beliefs, values, and norms that define which activities can be considered legitimate and socially acceptable. The sociological view, on the other hand, holds that due to cognitive limitations, human behaviors are driven by the shared culture, and social norms, and persist due to the taken-for-granted assumptions ([DiMaggio and Powell, 1991](#_ENREF_21); [DiMaggio and Powell, 1983](#_ENREF_20)). Despite the different assumptions of the two scholarly views, we draw upon ([Bruton and Ahlstrom, 2003](#_ENREF_13); [Hirsch and Lounsbury, 1997](#_ENREF_29)) to argue that both perspectives can complement each other in explaining the emergence of hidden entrepreneurs.

Although the formal and informal institutions framework proved to be useful to explain various informal economic activities ([Webb *et al.*, 2009](#_ENREF_69); [Williams *et al.*, 2015](#_ENREF_77); [Webb *et al.*, 2013](#_ENREF_67)), this approach might not be sufficient to rationalize hidden practices because it would be difficult to explain why international hidden entrepreneurs and local passive partners jointly engage in the risky hidden practices that can expose the hidden entrepreneurs to deportation ,and passive entrepreneurs to potential prosecution arising from the liabilities of owning a business where they have no control. Hence, we argue that cognitive institutions are critical in determining the hidden entrepreneurial practices as recent literature shows that knowledge, skills and perceptions of informal entrepreneurs determine the degree of informality of their business activities ([Williams and Shahid, 2016](#_ENREF_82); [Williams *et al.*, 2016](#_ENREF_83)). This is more relevant since the hidden entrepreneurship activities require the consent and involvement of passive local partners who would not engage in these risky activities if it was not for some possible cognitive limitations. Therefore, incorporating the sociological approach of institutional theory would enable better understanding of hidden entrepreneurs’ practices and would help avoid the dichotomy of formal/informal institutions by adding other parameters such as the cognitive abilities and perceptions of hidden and passive partners. We draw upon the framework of [Scott (2014)](#_ENREF_59) which summarizes and categorizes these multiple perspectives into regulative, normative, and cognitive dimensions ([Bruton *et al.*, 2010](#_ENREF_14)).

Building on the understanding that institutions shape the formality of individuals and firms ([Thai and Turkina, 2014](#_ENREF_63)), the first objective of this study is to demonstrate the significance of the institutional factors that encourage hidden entrepreneurs to engage in the act of bridging the formal and informal economy by illuminating the role of regulative, normative and cognitive dimensions of these institutional dynamics ([Scott, 2014](#_ENREF_59)). While regulative dimension includes public policies, rules and regulations, normative dimension includes the shared values and norms that shape the entrepreneurial behavior. The cognitive dimension takes into account the individual knowledge and skills and perceptions that shape their behavior ([Busenitz *et al.*, 2000](#_ENREF_15)).

From a regulative dimension, many studies argue that the ineffective legal institutions such as the perceived rigid registration regulations, unreasonable taxes, and government corruption ([Schneider, 2005](#_ENREF_56); [De Soto, 1989](#_ENREF_18); [Siqueira *et al.*, 2016](#_ENREF_60); [Raijman, 2001](#_ENREF_54)) as well as the associated institutional imperfections can facilitate informal entrepreneurship approaches ([Webb *et al.*, 2009](#_ENREF_69)). In the context of Oman, the existing loopholes in legislation and public policy can encourage hidden informality of non-Omanis who are otherwise, required to make a minimum investment of around 390,000 USD in order to operate an official partnership business in Oman. Even when this requirement is satisfied, they are denied majority ownership status in ventures, making hidden practices more attractive for them. Additionally, the literature suggests that weak enforcement of legislation enables the hidden entrepreneurs and their local partners to exploit opportunities in the informal economy without the fear of being charged ([Williams and Shahid, 2016](#_ENREF_82); [ILO, 2014](#_ENREF_33); [Webb *et al.*, 2013](#_ENREF_67)).

Social institutions complement regulatory institutions in shaping individuals’ and firms’ informal behavior ([Williams and Vorley, 2014](#_ENREF_86); [Thai and Turkina, 2014](#_ENREF_63); [Williams and Shahid, 2016](#_ENREF_82)), and provide a conducive environment for the emergence of hidden entrepreneurs. In the hidden practices, there are usually two individuals involved: the hidden entrepreneur and the passive (local) partner. We argue that the embedded normative and cognitive institutions would allow better comprehension of how this relationship has developed. From a normative dimension, studies show that the entrepreneurial mindset is developed within the sociocultural environment and through ‘meso institutions’ such as community norms and entrepreneurial abilities ([Baughn and Neupert, 2003](#_ENREF_10); [Huggins and Thompson, 2014](#_ENREF_31); [Tonoyan *et al.*, 2010](#_ENREF_65)). The extent of valuation of entrepreneurship as a career and the extent of acceptability of hidden practices within the society can help in explaining the prevalence of the hidden practices. In addition, the cognitive abilities of entrepreneurs are influential in determining the entrepreneurial opportunities they pursue ([Scott, 2014](#_ENREF_59)). [Stuetzer *et al.* (2014)](#_ENREF_61) argue that entrepreneurial culture influences individual intentions and perceptions towards business opportunities.

In the informal economy literature, [Williams and Shahid (2016)](#_ENREF_82) identify a number of cognitive factors that can determine the level of informality, such as perception towards public sector corruption, the risk involved in the informality, and the tax morality. The education background is also shown to be deterministic in the level of informality of firms ([Williams and Shahid, 2016](#_ENREF_82)). Subsequently, the knowledge and skills gained from social and educational institutions would influence the ability of entrepreneurs to visualize opportunities in the market. As entrepreneurs become more confident that they have the right skills and knowledge to succeed, they are more likely to pursue entrepreneurship activities by themselves ([Arenius and Minniti, 2005](#_ENREF_9)). In absence of sufficient knowledge and skills, they may consider alternative ways such as partnering with experienced and risk-tolerant hidden entrepreneurs to overcome their cognitive deficiencies and accept higher returns to their investments without active involvement.

Having discussed these different dimensions of institutional environments, they should not be viewed in isolation when explaining the motives for hidden entrepreneurship practices. [Webb *et al.* (2009: 495)](#_ENREF_69), for example, argue that ‘the informal economy exists because of the incongruence between what is defined as legitimate by formal and informal institutions’. Other scholars have used the term ‘institutional asymmetry’ to explain the emergence of the informal activities in Bulgaria ([Williams *et al.*, 2015](#_ENREF_77)), Croatia ([Williams and Franic, 2016](#_ENREF_76)), Slovakia and Ukraine ([Ostapenko and Williams, 2016](#_ENREF_50)). Incorporating these debates, hidden entrpreneurs would have more prevalence in the society when there is a wider gap between what is considered illegal by the regulators and what is considered legitimate and acceptable within the society.

***Effects of Hidden Entrepreneurship***

The implications of hidden entrepreneurs on the domestic entrepreneurial ecosystem are not well understood. Earlier research has highlighted the implications of informal business activities on the wider economy, and the level of their magnitude within both developing and developed countries ([Webb *et al.*, 2014](#_ENREF_68); [Williams and Schneider, 2016](#_ENREF_81)). According to the informal economy literature, entrepreneurs practicing within the informal economy may overlook and/or sidestep legislation ([Webb *et al.*, 2014](#_ENREF_68); [Nichter and Goldmark, 2009](#_ENREF_47); [Neuwirth, 2011](#_ENREF_46)). In the case of hidden entrepreneurs, this concerns labor regulations, taxes, and ownership rights, leading to an unfair advantage over the active local entrepreneurs. As hidden entrepreneurs have no legal connection to the business involved, they are effectively beyond the reach of the law. In extreme cases, unwitting local business partners who legally own the business may be prosecuted for breaching the law, while their hidden entrepreneur partner escapes prosecution. As such, hidden entrepreneurs may evade tax ([Ott, 1999](#_ENREF_51)) or breach Omani labor regulations ([Al-Mamari *et al.*, 2013](#_ENREF_4)). The repatriation and shifting of profits by hidden entrepreneurs can also be perceived as being problematic by policy makers. Researchers have argued that the money generated in the informal economy is often circulated into the formal economy, limiting the negative impacts for the overall economy ([Webb *et al.*, 2013](#_ENREF_67); [Schneider, 2002](#_ENREF_55)). However, with hidden entrepreneurship, returns are claimed to be largely shifted overseas ([Al-Nasseri, 2015](#_ENREF_5)).

Hidden entrepreneurs also have the potential to adversely affect the future of local entrepreneurs, and the entrepreneurship development plans of the government. Former studies have demonstrated that informal entrepreneurs are able to undercut the entrepreneurs that comply with the regulations in the formal economy, creating an unlevelled playing field ([Williams, 2007](#_ENREF_73); [Hudson *et al.*, 2012](#_ENREF_30); [Andrews *et al.*, 2011](#_ENREF_8)).

Since activities within the informal economy can generate both constructive and destructive effects ([Webb *et al.*, 2013](#_ENREF_67)), it can be argued that hidden entrepreneurs have the potential to make some contributions towards the Omani entrepreneurial ecosystem. The collaboration between the hidden and the local entrepreneurs can result in mutual benefits. Informal economic activities have been known to provide efficient resources that increase the competitiveness of the formal firms ([Coletto, 2010](#_ENREF_16)). Also, collaborative learning can be expected due to the interactions between the local entrepreneurs and the experienced international hidden entrepreneurs.

In summary, although hidden entrepreneurship practices fit well with the conventional definitions of informal entrepreneurship, they are understudied in the extant literature. Subsequently, this paper aims to bridge this knowledge gap by examining how institutional dynamics resulted in the emergence of hidden entrepreneurship, while delineating the perceived effects of these practices on the entrepreneurial ecosystem and wider economy.

**Methodology**

This paper uses an interpretive qualitative approach ([Myers, 2013](#_ENREF_45)) to form a new understanding of a previously unstudied phenomenon ([Gephart, 2004](#_ENREF_28); [Doern, 2009](#_ENREF_22)). The ‘naturalistic enquiry’ perspective of this study enabled a comprehensive investigation of hidden entrepreneurship as it is perceived and experienced within its context ([Lincoln and Guba, 1985](#_ENREF_40)). For this study, in-depth interviews were undertaken and policy documents were analyzed to gain exploratory insight into the emergence of the hidden entrepreneurship and its perceived effects on entrepreneurship development and the economy. Laws and policy documents were used to contextualize the research by examining the existing regulations that shape the entrepreneurship environment in Oman.

The participants were selected using a purposive sampling technique to provide wide variability and representation of the study context in Oman ([Patton, 2015](#_ENREF_52)). Triangulation in the data was achieved by examining multiple sources of data (i.e. interviews and documents), and by recruiting informants at multiple levels ([Patton, 2015](#_ENREF_52)). The sample included senior and middle manager level public officials who were recruited from number of government agencies that are considered to be the key supporting agencies for SMEs in Oman. The variety of selection in the authority level is sought to ensure capturing perspectives from policymaking and policy implementation levels ([Eisenhardt and Graebner, 2007](#_ENREF_23)). The sample also included active entrepreneurs from various businesses, along with other stakeholders including bankers, academics, support programs managers, consultant, venture capitalist, and business associations. In total, thirty-eight interviews were conducted, which generated about fifty hours of interview data. Respondent details and their corresponding codes are illustrated in Table 1. We were unable to recruit hidden entrepreneurs in our sample because people who engage in such illegal practices often do not want to be identified ([Schneider *et al.*, 2010](#_ENREF_57)). To generate insights into these practices, we relied on the experiences of local active entrepreneurs and stakeholders who interact with them and are knowledgeable about hidden entrepreneurs. The familiarity of the lead author with the local entrepreneurial ecosystem enabled access to appropriate cases that were information-rich and that would yield data and informational saturation ([Onwuegbuzie and Leech, 2007](#_ENREF_49)).

[INSERT TABLE 1 ABOUT HERE]

The primary data was collected using semi-structured interviews ([King and Horrocks, 2010](#_ENREF_38)). All interviews were conducted in 2014 in Muscat Governorate, which is the largest region in Oman and represents people who have come from all regions of the country. This provided an in-depth understanding of the overall Omani institutional context, which might differ from one place to another in regards to the socio-cultural environment. As the initial interviews sought to explore the impact of institutional environment on entrepreneurial activities in a broad sense, seven follow-up interviews were conducted via email to focus on the hidden entrepreneurs ([Fontana and Frey, 2000](#_ENREF_25)). Guidelines for the semi-structured interviews were developed to make sure that similar issues are covered to allow analytical comparability ([Wengraf, 2001](#_ENREF_72)). There was flexibility to explore new issues that emerged during the interviews, data analysis and interpretation process ([Schultz and Hatch, 1996](#_ENREF_58); [Patton, 2015](#_ENREF_52)). The guidelines included questions of who are the hidden entrepreneurs and why they choose Oman for their activities, how they affect active entrepreneurs and the wider economy, and what contributions they bring to the Omani entrepreneurial ecosystem. Most of the interviews were conducted in Arabic. However, the language choice was left to the participants, to keep a free flow of their stories, in order to yield rich information and minimize distortion. .

The interviews were recorded and transcribed verbatim to preserve precision of the data. Translation of the narratives into English was only completed after interpreting the data to attain precise meanings. Following a thematic analysis approach ([Myers, 2013](#_ENREF_45)), the data was coded and analyzed in a ‘template’, to identify some categories, patterns, themes, and relationships ([King, 2004](#_ENREF_37)). Some initial categories and themes were identified from the literature, then they were reviewed and modified in accordance with the collected data ([King, 2004](#_ENREF_37)). In analyzing the transcripts, the aim was to identify institutional factors that enable hidden entrepreneurs’ practices as reported by active entrepreneurs and stakeholders. The institutional forces were categorized by type (i.e. regulative, normative, cognitive), and their sources were identified. Additionally, the perceived negative implications as well as the positive contributions associated with hidden entrepreneurs’ practices were categorized by the affected parties. Table 2 illustrates the categories, themes and sub-themes, along with some illustrative quotes that emerged from the data.

[INSERT TABLE 2 ABOUT HERE]

**Findings and discussion**

In the following three sub-sections we address our research questions of how institutional dynamics caused the emergence of hidden entrepreneurs in Oman, how they are perceived by active entrepreneurs and stakeholders, and finally how hidden entrepreneurs can contribute to the domestic entrepreneurial ecosystem.

***Emergence of hidden entrepreneurs from an institutional perspective***

The empirical analysis revealed multiple regulative institutions that motivated hidden entrepreneurs’ activities. First, the Foreign Capital Investment Law of Oman that provides strict controls on foreign investments plays an important role in the emergence of hidden entrepreneurship activities. In particular, the dual requirements to establish formal partnerships with locals, and to invest a large amount of capital (around 390,000 USD) are some of the critical regulations that act as a barrier for non-Omani entrepreneurs (i.e. Artical 2A of [The Foreign Capital Investment Law: Royal Decree 102/94](#_ENREF_64)). Furthermore, there are no specific regulations that directly criminalize hidden entrepreneurs’ activities ([Al-Nasseri, 2015](#_ENREF_5)), which sees investors use hidden practices as a route to circumvent the above mentioned regulations. Consistent with previous informal economy studies, over-regulations often encourage informal entrepreneurs, including the hidden practices in our case, to look for opportunities within the informal sector to overcome the cost and efforts to register their businesses (c.f. [Biles, 2009](#_ENREF_12); [Siqueira *et al.*, 2016](#_ENREF_60)).

Insufficient market regulations can also be considered as enabling elements. Poorly designed and implemented competition regulations leave markets amenable to the exploitation of hidden entrepreneurs. Hidden entrepreneurs from overseas are often more comfortable in using lobbying to gain competitive advantages, and are protected from prosecution to a degree as the legal ownership of the business and the associated risks sit with the local passive partner instead of the hidden entrepreneur. Besides, underdeveloped foreign labor regulations contribute to the persistence of hidden entrepreneurship activities by creating ease of immigration for foreign workers, undermining the local labor market. The foreign workers utilize the experience and skills that is gained abroad to exploit opportunities in the local market ([Frederking, 2004](#_ENREF_27)) through hidden practices. Respondents illustrate these issues:

‘To be frank with you, we have a free market in Oman, this is good, but there should be some regulations that control the market entry. Because of the missing regulations, anyone [meaning non-Omanis] can enter the market and they invade the market. This affects us badly.’ (Ent-02)

‘Hidden entrepreneurship is supported by the ease of registering ventures and obtaining licenses. Also supported by the legal cover that characterizes these enterprises.’(PublicOfficial-07)

The inefficiency in the regulations have been often associated with corrupt business activities ([Tonoyan *et al.*, 2010](#_ENREF_65)). Consistent with the informal entrepreneurship literature, the persistence of hidden activities is highly encouraged by weak governance quality such as institutional voids and the weak enforcement of laws that allow for opportunity recognition and exploitation within the informal economy ([Webb *et al.*, 2013](#_ENREF_67); [Thai and Turkina, 2014](#_ENREF_63)). [Lisi and Pugno (2010)](#_ENREF_41) have posited in their model that tougher monitoring and minimizing the over-regulations may reduce the persistence of the shadow economy and would help encouraging formal structures.

Despite the introduction of enterprise support schemes in 2013 to develop the domestic entrepreneurial ecosystem, their poor design has also unintentionally encouraged hidden entrepreneurs’ practices to prevail as a means of generating ‘easy money’. This can be considered to be a consequence of poor policy design where the program does not fit sufficiently with the Omani institutional context (cf. [Minniti, 2008](#_ENREF_44); [Wagner and Sternberg, 2004](#_ENREF_66)), as suggested below:

‘We have been invited to the Tender Board as they wanted to hear our opinions about the mechanism to implement the 10% procurement policy that is allocated to SMEs…I was telling them, the mechanism implemented now is not working. If we really want to give the 10% to the real local entrepreneurs, we should be frank with ourselves; we have to know the real identity of the beneficiaries of this support. What is happening in the market is a game, and we are aware of it..because we feel it and see it every day..I am not exaggerating if I say most of [these names] are only pictures, behind which there are other real owners’ (Ent-01).

The analysis also revealed how the prevailing normative institutions have encouraged the emergence of hidden entrepreneurs. Hidden practices are found to be embedded in the social context, similar to most informal activities ([c.f. Estrin and Mickiewicz, 2012](#_ENREF_24)). An entrepreneurial culture is largely absent in Oman, undermining the potential of formal entrepreneurship to flourish ([Al-Riyami *et al.*, 2002](#_ENREF_6)). People often perceive public sector jobs as the ultimate goal ([Forstenlechner *et al.*, 2014](#_ENREF_26)), which hinders their ability to visualize opportunities in the formal sector. Hence, they often wait for an international entrepreneur to bridge this gap by utilizing this informal practice. Consistent with previous claims ([e.g. Webb *et al.*, 2009](#_ENREF_69)), the social acceptability of the hidden activities assure their legitimacy and persistence. Another interesting finding is the extent of trust that exists between the international entrepreneurs and their passive partners, which are built through social interactions to overcome the perceived risk associated with these practices. While acknowledging the complexity of trust construct in entrepreneurship studies ([Welter, 2012](#_ENREF_71)), we may refer it partially to the Omani culture that often promote good faith on others, unless there is obvious reason to be skeptical. A public official presents some of these elements:

‘…the mentality of the local entrepreneurs who accept little profit, and appreciate the gain from foreign labor…and complete reliance on them. Also the wide spread of this culture and its embeddedness within the locals and foreigners in the country makes it a legitimate way of doing business. Also, citizens lack the skills and knowledge that motivate real entrepreneurship. Also, they lack the concentration on their enterprises because of the time imbalance between the enterprise and their own jobs’ (PublicOfficial-03)

From the cognitive institutional dimension, as indicated in the above quote, the limited entrepreneurial culture in Oman is a salient factor enabling hidden entrepreneurs as it deprives potential local entrepreneurs from realizing the benefits of self-employment. Omani nationals lack the entrepreneurial skills and the knowledge that would give them the confidence to run their own businesses. As [Arenius and Minniti (2005)](#_ENREF_9) suggest, they are triggering factors for nascent entrepreneurship. Additionally, the behavior of Omanis is consistent with high risk avoidance ([Al-Riyami *et al.*, 2002](#_ENREF_6)). Therefore, hidden entrepreneurship approach becomes an attractive opportunity to generate a small fixed income within legal boundaries, while avoiding the risk of failing and the hassles of the day-to-day business activities.

Furthermore, the empirical analysis shows that a lack of awareness amongst the passive locals regarding the potential negative impacts of hidden entrepreneurs on socioeconomic environment is another major factor. There are several negative externalities that Omani nationals are unaware of, as passive locals authorize hidden entrepreneurs to handle all business activities on their behalf, exposing themselves to very high risk without knowing. These findings advance the informal entrepreneurship literature which has predominantly focused on the economic perspectives (e.g. [Webb *et al.*, 2009](#_ENREF_69); [Williams and Franic, 2016](#_ENREF_76)). This adds to the limited studied that have highlighted the role of cognitive abilities and perceptions, such as tax morality and awareness of regulations, in explaining the informal business activities ([Williams and Shahid, 2016](#_ENREF_82)). A public official explains some of the cognitive elements:

‘…This is supplemented with the lack of awareness of some Omanis about the risks associated with hidden entrepreneurship. Also, it exists because of risk intolerance amongst Omanis and the complete authorization of foreigners to manage, sign contracts and agreements, supervise, and implement all business activities. There is also good collaboration and trust between the local entrepreneur and the foreigner.. Also, these practices emerge because some Omanis are not dedicating their time to their business because of the focus on their official job.’ (PublicOfficial-07)

***Stakeholder perceptions of hidden entrepreneurs***

The empirical findings discussed in this section demonstrate the perceived negative consequences of hidden entrepreneurs for domestic active and passive entrepreneurs. First, hidden entrepreneurship is found to increase the pressure on active entrepreneurs through generating unfair competition in the market. Interviewees stated that non-Omanis tend to accept lower profit margins to undermine the prices requested by domestic Omani firms, which is achieved by employing foreign workers sourced from overseas networks, who accept lower wages. In contrast, active entrepreneurs need to charge higher prices to offset the opportunity cost of sacrificing a job in public or private sector, which have generous remuneration packages. The extant literature have emphasized the lower competitiveness of formal firms that is caused by the unfair competition ([Kettles, 2007](#_ENREF_35); [Webb *et al.*, 2013](#_ENREF_67); [Perry, 2007](#_ENREF_53)), despite the findings of [Williams (2007)](#_ENREF_73) that informal entrepreneurs are not a major concern to the formal firms in the UK due to their small size. The hidden entrepreneurs in Oman, however, can undercut the competitiveness of active entrepreneurs due to their formal structure and can even be large firms. Additionally, the effects of hidden entrepreneurs are perceived to be more significant since international entrepreneurs have access to more efficient resources outside the domestic market while utilizing the Omani cover to access competitive resources domestically that are meant for the development of local entrepreneurs. Entrepreneurs noted the unfair practices:

‘We deal mostly with construction and consultancy firms, which are mostly controlled by non-Omanis. These people are collaborating with each other very much. You will find them winning tenders easily, because they are competing aggressively…’ (Ent-01).

‘These practices affect us negatively through the competition and the prices the hidden entrepreneurs charge. These foreigners tend to charge more competitive prices because they are experienced in the field and their requirements are little. And these hidden firms are covered with Omani uniform so they can benefit from all possible facilities as the government is currently supporting Omani SMEs’ (Ent-04).

Passive entrepreneurs, on the other hand, are vulnerable to high risk as a result of engagement in hidden entrepreneurship practices. Due to the limited entrepreneurial mindset, some local entrepreneurs authorize hidden entrepreneurs to handle all business activities. Fraud incidents have occurred, where passive entrepreneurs have had loans taken out in the business name without them knowing. To our knowledge, this effect has not been reported in any informal economy study. The previous studies mainly highlight the risk of being detected by the regulators ([See Williams and Shahid, 2016](#_ENREF_82)). A banker illustrates fraud incidents:

‘When we finance a company, we find almost no involvement from the Omanis. Even sometimes, we find the foreigner would sign the papers needed. This is causing a problem to the customers as sometimes they fail to pay their loans. Because what happens, not in all cases, but it happened; when a problem occurs the foreigner escapes, and all losses fall into the head of the Omani.’ (Banker-2)

Interviewees also stressed the negative impact of hidden entrepreneurs on the wider economy. For example, the profits generated from hidden activities are often transferred abroad instead of being circulated within the Omani economy, facilitated by the freedom of currency transfer regulations. Figures suggest that approximately 8 billion USD attributed to hidden activities, is transferred out of Oman every year ([Al-Hinai, 2014](#_ENREF_3)). This encounters the claims of [Schneider (2002)](#_ENREF_55) and [Webb *et al.* (2013)](#_ENREF_67) that the money generated in the informal economy is usually invested back in the formal economy. Contrasting the findings that informal sector is considered a source of jobs ([Kingdon and Knight, 2004](#_ENREF_39); [Webb *et al.*, 2013](#_ENREF_67)), hidden entrepreneurs are perceived to escalate the unemployment rate amongst Omani people. Hidden entrepreneurs utilize their authority to employ foreign labor to reduce their operating costs and compete aggressively against the local SME owners, who sometimes have to close their businesses; undermining government attempts to create a robust entrepreneurial ecosystem. A public official argues:

‘Some of the dangerous impacts of hidden entrepreneurship activities are the transfer of most of profit generated from these activities to outside the country.. distortion of economic growth figures. Also hidden entrepreneurship deprives Omani nationals from employment opportunities.. Facts have shown that foreigners employ people from their own country. This distorts the Omanization regulations. Also, commercial activities in the market are guided by the interests and wills of these foreigners. It is unfair competition against the local active SMEs’ (PublicOfficial-07)

While the major concern of policymakers in informal economic activities is the loss of tax revenue that is needed for national development ([Webb *et al.*, 2014](#_ENREF_68); [ILO, 2014](#_ENREF_33)), it is not highlighted in the context of hidden entrepreneurs because their activities act formally in terms of operations and tax payment. The respondents rather emphasized the distortion of government entrepreneurship policy and plans. Despite the support interventions introduced in the policy reforms in 2013, hidden activities continue to take place, with negative implications for active entrepreneurs who aspire to be competitive. For example, hidden entrepreneurs bid in the reserved 10% of public procurement tenders quota, which is allocated for Omani SMEs, as the ventures are registered under a local Omani’s name. Such practices have distorted government mechanisms to identify active entrepreneurs, leading to an ineffective allocation of resources. Government efforts to endorse and encourage an entrepreneurial mindset and self-employment culture are constantly being challenged by hidden entrepreneurs’ practices.

***Uncovering collaborative potential***

Despite the negative externalities related to hidden entrepreneurs’ practices, the respondents raised some potential contributions for the domestic entrepreneurial ecosystem. For instance, hidden entrepreneurs can provide a source of knowledge for local entrepreneurs or owner/managers enabling them to improve their skills. An active entrepreneur demonstrates how they interact with hidden entrepreneurs for the purpose of learning and growing, despite it is being against government aims to outlaw hidden entrepreneurs:

‘...We see how they prepare proposal to a competitive level, so I get a good knowledge about that. Also, I will be able to know the skills he is using, the secrets behind his success. Also, if we do the project together, I will be able to get involved in the skills they are having, I will be able to know how they run their business and how they are controlling the projects. This is very valuable learning…Since it is hard to get rid of these practices, we as entrepreneurs should not consider them a barrier to our success. We shouldn’t blame them for our failures. We should benefit from the people who practice these activities. If we want to look at it positively; our key success factor is the experience; experience in developing the business and gaining customers and understanding the market..and since most Omani firms are engaged in hidden practices, if I collaborate with them I can transfer knowledge and skills from these experienced international entrepreneurs.’(Ent-7)

Furthermore, hidden entrepreneurs can be utilized as a good network with linkages to international resources and markets. They usually have access to knowledge, finance, human resources and suppliers that are unavailable in Oman. Collaboration and engagement between the hidden and local entrepreneurs could foster entrepreneurial development and economic growth. An entrepreneur demonstrates such benefits:

‘Well.. Through hidden entrepreneurs I can have access to valuable suppliers and customers whom I can deal with. Also, I can recruit international skilled employees in these firms who have experience in the Omani market. For example, I can identify a business developer who can understand the Omani market and Omani consumers. So it will be easier for me than trying to recruit people whom I don’t know.’ (Ent-4)

Moreover, these practices can potentially strengthen the local active entrepreneurs as they learn to be more efficient because of market competition. As such, some active entrepreneurs reject the idea that hidden practices are solely negative for their business. Besides, the existence of more successful local entrepreneurs in the long-run would inspire the passive owners/managers to shift their business activities towards a more formal structure, in which they obtain full power and control:

‘When we try to benefit from these hidden entrepreneurs, and we consider them a source of success factors rather than barriers, and we learn and develop our businesses through them, we can be inspirational sources for the passive entrepreneurs. In the long run, the passive entrepreneurs might decide to be active and take control over their businesses; which of course, will be more useful to the Omani economy.’ (Ent-7)

These potential contributions support the thesis that informal economic activities often bring positive contributions that can add value to the economy and society ([Webb *et al.*, 2013](#_ENREF_67)). Therefore, instead of trying to regulate away hidden entrepreneurs, there could be mechanisms to absorb them within the formal entrepreneurial ecosystem. The findings also indicate how the collaboration with hidden entrepreneurs can result in some positive cognitive institutionalization within Oman. As such, active local entrepreneurs could encourage passive entrepreneurs to legalize their structures and attain the full benefits of entrepreneurship and venture control. In the long term, they could be role models for passive entrepreneurs and promote legitimacy and formal economic activities.

While the informal economy literature demonstrates the significance of the informal activities in overcoming the institutional imperfections and supporting the socioeconomic stability through the efficiency generated by these informal activities ([Williams, 2008](#_ENREF_74); [Webb *et al.*, 2009](#_ENREF_69); [Raijman, 2001](#_ENREF_54); [De Soto, 1989](#_ENREF_18)), hidden entrepreneurs offer different kind of contributions, principally entrepreneurial knowledge. As well as efficiency, they tend to provide more intangible contributions such as provision of entrepreneurial learning, and its role in creating a formal entrepreneurial mindset in the long run amongst passive entrepreneurs and Omani citizens.

**Conclusions: Contributions and implications for research and policy**

The overall aim of this paper was to explore the notion of hidden entrepreneurship in Oman by examining their perceived causes, effects and potential contributions on the domestic entrepreneurial ecosystem. The analysis focused on three key actors; passive and hidden entrepreneurs, who unofficially collaborate in business partnership that is registered solely under the passive local entrepreneur’s name, but unofficially owned and operated by the international hidden entrepreneur. The third actor is the active local entrepreneur who has to deal with these firms as competitors and collaborators at the same time within the domestic market. The study provided evidence on how hidden entrepreneurs persists utilizing the prevailing institutional configurations, such as weak regulations and policies at the regulative level, anti-entrepreneurship societal mindset at the normative level, and deficiencies in business knowledge and skills amongst passive entrepreneurs at the cognitive level. Whilst hidden entrepreneurs are perceived negatively by the local active entrepreneurs and stakeholders in terms of competition, fraud and distortion of government SME policy, interestingly several contributions were revealed by those who benefited from these international hidden entrepreneurs in terms of learning and access to scarce resources.

Through these findings the study contributes multiple insights into informal entrepreneurship research. First, the paper contributes to the field by introducing hidden entrepreneurs who are understudied in the informal economy literature. Similar to most practices of the informal economy, hidden entrepreneurs engage in hybrid activities involving both legal and illegal practices ([Williams and Shahid, 2016](#_ENREF_82)). While their businesses are registered and sell legal goods and services, they violate ownership registration and labor laws. However, they differ from other informal activities in terms of effects on the economy. A critical example is the undermining of the local economy due to the transfer of earnings outside the country. Second, the paper benefited from the institutional lens to advance understandings of hidden entrepreneurs by elucidating the role of institutional dynamics in encouraging international entrepreneurs to pursue hidden practices in the context of Oman. Although previous informal economy literature largely followed formal and informal institutional frameworks to explain informal entrepreneurship ([e.g. Webb *et al.*, 2009](#_ENREF_69)), this study demonstrated the usefulness of Scott’s ([2014](#_ENREF_59)) sociological approach to unpack risky, hidden practices in Oman. Particularly, the findings exhibit the role of societal culture that undermine entrepreneurship as a career and the limited cognitive abilities of some locals in privileging these practices. Also, trust between the hidden and passive entrepreneurs appear to be an important sociocultural construct that enables the creation of hidden practices. Third, the paper demonstrated the importance of examining informal economic activities in the context of developing countries especially in under-researched contexts such as Oman and the Gulf region ([Webb *et al.*, 2014](#_ENREF_68); [Al-Shaya, 2015](#_ENREF_7)). The unique institutional configurations of these countries differ from that of developed countries in terms of maturity and sociocultural orientations, which allow for different types of informality to emerge as shown in the case of hidden entrepreneurs.

Furthermore, our article provides policy implications, particularly for the Omani government. The government has been labeling hidden entrepreneurship practices negatively, while overlooking the potential contributions that could be gained through working alongside these experienced international entrepreneurs. While it may be true that hidden entrepreneurs can undermine government plans, the findings also highlight how collaborative programmes could enhance local entrepreneurs’ capabilities and resources. Interestingly, rolling back attempts to penalize international hidden entrepreneurs, or working closely with them, could enhance the domestic market, assisting the economy and entrepreneurship development. . Normalizing and legitimizing these activities could be a useful intervention, through which violators (i.e. hidden and passive entrepreneurs) are encouraged to declare their business interests and labor status. The Omani government could learn from the ‘deshadowization’ program of Ukraine, where the government encourages firms to enter the formal economy, through regulatory simplification and incentives ([Williams and Round, 2007](#_ENREF_79)). In our context, this could be achieved through revising foreign investment regulations to facilitate the creation of more joint ventures between international and local entrepreneurs, where more collaborative learning can be realized. Incentives such as making it easier to bid in public procurement programs could also be offered to support joint ventures. In addition, the government could invest more in awareness programmes to change the societal views of these ‘illegal’ practices and to promote joint ventures as a legitimate form of entrepreneurial activity . Through these interventions, both hidden and passive local entrepreneurs could pursue legal collaborative businesses that can generate economic growth for the country as well as supporting entrepreneurship development via knowledge transfer.

Overall, the contributions of our paper are two-fold. First, it introduced the role of hidden entrepreneurs who bridge formal and informal economies, generating insights into the institutional environment of an emerging economy (i.e. Oman). As a developing economy, Oman has various institutional deficiencies which have indirectly facilitated the rise of hidden entrepreneurs. Subsequently, instead of creating a formal developed SME sector, the government has created a dual formal and informal economy. Building on this, our second contribution focuses on the work in informal sector by examining the perceived effects of hidden entrepreneurs on the formal economy alongside, opportunities arising for greater collaboration between local and hidden entrepreneurs. Instead of trying to regulate away hidden entrepreneurs, we highlighted opportunities for absorbing the expertise and capabilities of international entrepreneurs to develop the local entrepreneurial ecosystem.

***Limitations and future research:***

It is important to acknowledge the limitations of the study and suggest future avenues for research. First, We were unable to directly interview hidden/informal entrepreneurs as they did not want to be identified or to participate ([Schneider *et al.*, 2010](#_ENREF_57)). We suggest researchers of future studies to spend time establishing trust with hidden entrepreneurs in order to include them in their studies, although gaining access may still be challenging due to the hidden and secretive nature of their activities. We also encourage future researchers to further examine hidden practices by studying the mechanism of the collaborative relationship between the passive and hidden entrepreneurs at the individual level and learn how trust and networking shape this affiliation. Furthermore, hidden entrepreneurship does not only exist in Oman, but also in other neighboring countries such as Saudi Arabia ([Al-Shaya, 2015](#_ENREF_7)), perhaps due to the similar institutional settings. Subsequently, we suggest that further investigations of hidden entrepreneurship could examine neighboring countries within the Gulf region (i.e. Saudi Arabia, UAE, Qatar, Kuwait, Bahrain) to develop greater insight into this unique phenomena. .

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**The figures and tables:**

Table 1: Description of participants and their corresponding codes

| **Participant Code** | **Participant Description** |
| --- | --- |
| Ent-01 | Entrepreneur in technical solutions & consultancy |
| Ent-02 | Entrepreneur in scientific solutions & consultancy |
| Ent-03 | Entrepreneur in advertising |
| Ent-04 | Entrepreneur in design |
| Ent-05 | Entrepreneur in IT solutions |
| Ent-06 | Entrepreneur in IT solutions |
| Ent-07 | Entrepreneur in IT solutions |
| Ent-08 | Entrepreneur in IT solutions |
| Ent-09 | Entrepreneur in design |
| Ent-10 | Entrepreneur in design |
| Ent-11 | Entrepreneur in E-business |
| Ent-12 | Entrepreneur in technical solutions & consultancy |
| Ent-13 | Entrepreneur in games development |
| PublicOfficial-01 | Director in government agency |
| PublicOfficial-02 | Director in government agency |
| PublicOfficial-03 | Head of Department in government agency |
| PublicOfficial-04 | Director in government agency |
| PublicOfficial-05 | Director General in government agency |
| PublicOfficial-06 | Director General in government agency |
| PublicOfficial-07 | Assistant to Director General in government agency |
| PublicOfficial-08 | Head of Department in government agency |
| PublicOfficial-09 | Deputy Director in government agency |
| PublicOfficial-10 | Head of Department in government agency |
| PublicOfficial-11 | Head of Department in government agency |
| Uni-Ent-Support | Director of entrepreneurship development department in academic institution |
| Uni-Academic | Assistant Professor and Head of management department in academic institution. |
| Incubator-1 | Manager of an incubator |
| Incubator-2 | Assistant Manager of an incubator |
| Incubator-3 | Director in an incubator |
| Ent-Program-1 | Executive Director of a corporate entrepreneurship program |
| Ent-Program-2 | Program Advisor of a corporate entrepreneurship program |
| Ent-Program-3 | Manager of a corporate entrepreneurship program |
| Ent-Program-4 | Program Officer in a corporate entrepreneurship program |
| Banker-1 | SMEs credit manager in a bank |
| Banker-2 | Deputy Director of SMEs Department in a bank |
| Tech\_Consultant | Technical consultant in SMEs consultancy firm for SMEs |
| VC | Manager in a venture capital firm |
| OCCI | Deputy Director in Oman Chamber of Commerce and Industry |

Table 2: Categories and themes that emerged from data analysis of hidden entrepreneurship phenomenon

|  |  |  |  |
| --- | --- | --- | --- |
| **Main Categories** | **Themes** | **Sub-Themes** | **Illustrative Quotes** |
| Causes | Regulative  institutions | No legislations that criminalize hidden practices | ‘In order to stop these practices, new legislations that criminalize these practices should be enforced.’ (Ent-04) |
| Easy regulations to open a business for local entrepreneurs | ‘Hidden entrepreneurship is supported by the ease of registering ventures and obtaining licenses …’(PublicOfficial-07) |
| Lax competition regulations | ‘… Because of the missing regulations, anyone [meaning non-Omanis] can enter the market and they invade the market. This affects us badly.(*Ent-02*) |
| Lack of monitoring of non-Omanis labor activities. | ‘Government departments should have more solid regulations to support local companies while conducting more investigation about the identity and operations of each company’ (Ent-07) |
| Poor policy design | ‘…I was telling them, the mechanism implemented now is not working. If we really want to give the 10% to the real local entrepreneurs, we should be frank with ourselves; we have to know the real identity of the beneficiaries of this support…’ (Ent-01). |
| Normative institutions | Trust relationship between Hidden and Passive entrepreneurs | ‘…There is also good collaboration and trust between the local entrepreneur and the foreigner..’ (PublicOfficial-07) |
| Embeddedness of hidden practices in the social context | ‘.. Also the wide spread of this culture and its embeddedness within the locals and foreigners in the country, and considering it the legitimate way of doing business…’ (PublicOfficial-03) |
| Cognitive institutions | Lack of entrepreneurial mindset | ‘The lack of entrepreneurship mindset amongst Omanis, is the reason that allowed foreign people to enter the country using deceptive practices...’ (PublicOfficial-05) |
| Lack of entrepreneurial skills and knowledge | ‘It might be a thought by most local entrepreneurs that hidden entrepreneurship can be one way for an easy cash and this can be true in some cases while this might be due to the lack of business knowledge and skills by those local entrepreneurs’ (Ent-07). |
| Lack of awareness of the effects of hidden practices | ‘…This is supplemented with the lack of awareness of some Omanis about the risks associated with hidden entrepreneurship.’ (PublicOfficial-07) |
| Negative implications | Active Entrepreneurs | Unfair competition | ‘These practices affect us negatively through the competition and the prices the hidden entrepreneurs charge.’ (Ent-04) |
| Passive Entrepreneurs | Fraud incidents | ‘.. Because what happens, not in all cases, but it happened; when a problem occurs the foreigner escapes, and all losses fall into the head of the Omani.’ (Banker-2) |
| Overall  Economy | Profit is transferred abroad | ‘..Some of the dangerous impacts of hidden entrepreneurship activities are the transfer of most of profit generated from these activities to outside the country.. distortion of economic growth figures..’ (PublicOfficial-07) |
| Increase of unemployment rate | ‘..Also hidden entrepreneurship deprives Omani nationals from employment opportunities.. Facts have shown that foreigners employ people from their own race. This distorts the Omanization regulations..’ (PublicOfficial-07) |
| Distortion of Entrepreneurship policies | ‘…hidden entrepreneurs can cause stronger un-equal competition against local entrepreneurs while getting same advantages from regulations and benefits officially made for local entrepreneurs.’ (Ent-07) |
| Potential contributions | Domestic entrepreneurial ecosystem | Source of knowledge transfer | ‘…since most Omani firms are engaged in hidden practices, if I collaborate with them I can transfer knowledge and skills from these experienced international entrepreneurs. Especially, we don’t have many legitimate Omani entrepreneurs whom we can learn from’. (Ent-7) |
| Access to resources in international market | ‘Well.. Through hidden entrepreneurs I can have access to valuable suppliers and customers whom I can deal with. Also, I can recruit international skilled employees in these firms who have experience in the Omani market..’ (Ent-4) |
| Achieving efficiency through competition | ‘When we try to benefit from these hidden entrepreneurs, and we consider them a source of success factors rather than barriers, and we learn and develop our businesses through them, we can be inspirational sources for the passive entrepreneurs. In the long run, the passive entrepreneurs might decide to be active and take control over their businesses; which of course, will be more useful to the Omani economy.’ (Ent-7) |
| Achieving more formalization in the long run |

Figure 1: Hidden entrepreneurship mechanism (Authors elaboration based on Webb et al. 2009)



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2. Reader in Strategy & Entrepreneurship , School of Management, Royal Holloway University of London, London, United Kingdom [↑](#footnote-ref-2)
3. Associate Professor in Strategy and Innovation, Southampton Business School, University of Southampton, Southampton, United Kingdom [↑](#footnote-ref-3)
4. The issue of ‘hidden entrepreneurs’ has also been raised in Saudi Arabia (Al-Shaya, 2015). [↑](#footnote-ref-4)
5. Hidden entrepreneurs often stay in the country using work permits under the sponsorship of the passive owners/managers. [↑](#footnote-ref-5)