

Small and Medium Enterprises (SMEs)' Adoption of Formal Sector: Impediments in Documentation in Pakistan

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ABSTRACT

The aim of this study is to determine SMEs' intention towards formal sector and the impediments in the formalization of documentation process of the SMEs. This study approached 234 owners and managers of SMEs to examine the intention toward the adoption of formal sector. The study used convenience sampling technique which is deductive in nature. For the testing of hypotheses, regression and correlation analysis were applied. The empirical results of this study revealed that attitude, subjective norms, and perceived behavior have highly positive significant impact on SMEs owners and managers' intention toward adoption of formal sector. The authors have also highlighted the limitations of this study.

Keywords: Attitude, Subjective Norms, Perceived Behavior, SMEs

JEL Classification: H20, H71

1. INTRODUCTION

SMEs' are considered as the backbone of economic development in both developing and developed countries (Siddiqui & Khan, 2019). According to Small and Medium Enterprises Development Authority (SMEDA, 2020), the SMEs working in Pakistan accounts for approximately 90 percent of overall businesses that provides approximately 80 percent employment to Non-Agricultural labors,

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and their share in annual Gross Domestic Product (GDP) is approximately 40 percent. SMEs play a significant role in economy, and their contribution is accounted for when they get registered with the government and tax authorities under formal setup. The registration with tax authorities is a benchmark to distinguish between formal and informal sectors of an economy. The formal SMEs play an important & significant role in producing employment and it contributes to the GDP of the country. The formal economy is an organized sector of the economy that includes all public and private sector businesses. The workers in the formal or registered sector are also protected by the labor laws (Webb, 2009). The research on the undocumented economy in Pakistan has largely focused on measuring the economy and its undocumented size. The existing literature gives various names to undocumented sectors like black economy, underground economy, secondary economy, shadow economy, and informal economy (Khalil, 2017). The main purpose of this study is to highlight the intention of the SMEs' owners and managers towards the adoption of the formal sector by registering with the government agencies, also, to highlight major barriers being faced by SMEs while adopting the formal sector. To the best of our knowledge, no research has done yet in Pakistan to determine the SMEs' intention towards the adoption of the formal sector. This research is a timely study to fill the above-stated gap.

Pakistan is a developing country with many an informal sector. Usually, the informal sector does not pay the taxes which causes huge revenue losses to the government exchequer. It is estimated that the share of undocumented economy in Pakistan is around 30% which is usually not taken into account while measuring the per capita income (Khalil, 2017). Since, the SMEs are the part of the economy,

they can be classified through various measures such as the number of employees, paid-up capital, and annual sales. Table 1 below shows the classification of SMEs in Pakistan:

Table 1: Classification of SMEs in Pakistan

Institution	Category	Employees	Capital/Annual Sales
Small and Medium Enterprises Development Authority (SMEDA)	Small	Up to 36	Up to 20 million
	Medium	Up to 99	Up to 40 million
Federal Bureau of Statistics, Pakistan	Small	Less than 10	N/A
	Medium	N/A	N/A
State Bank of Pakistan	Small	20 to 50	Rs 75 million to Rs 150 million
	Medium	51-250 (Manufacturing & Service MEs) 51-100 (Trading MEs)	Above Rs 150 million and up to Rs 800 million

Source: (Siddiqui & Khan, 2019)

The existence of an undocumented economy occurs because most of the businesses in developing countries, in general, operate without formal registration to the government authorities to evade the possible taxes. The informal economic activities are neither recognized nor counted in overall economic activities. In addition, they are neither regulated nor protected by the legal and institutional frameworks of a country.

In Pakistan, there are more than 38 million small and medium businesses, out of that 1.2 million belong to service sectors which account for 41% of all industrial units (0.8 million industrial units) with 1.8 million commercial and retail shops in urban areas (SBP, 2019). This study has taken the following research questions:

Q1: Do the SMEs owners and manager intend to adopt formal sector?

Q2: What are the perceived behaviors of SMEs owners and manager towards the adoption of formal sector?

Q3: What are the challenges and impediments in documentation SMEs face for the adoption of formal sector?

2. LITERATURE REVIEW

The cost of starting new firms or living in the formal economy may become overstated, which makes the informal economy more profitable and sustainable substitute. It is evident that countries with more corruption have a higher share of illegal economy (Johnson et al., 1998). The role of corruption as an obstacle to the formal economy is observed that employees of an informal sector do not avoid formal taxes only, but decrease government revenue through illegal means (Friedman et al., 2000). Previous studies have found a positive relationship between corruption and the level of informal economy (Torgler & Schneider, 2009). People feel resentful if they consider that the formal authorities are less concerned on the regulation of laws. Consequently, flagging the ways for a large informal economy in the country (Seleim and Bontis, 2009). According to a report on Corruption Perception Index (CPI) by Transparency International (2020) Pakistan is ranked at 124 out of 180 countries with a score of 31 out of 100. It is perceived that as the level of taxes enhances the cost of employment in formal economy rises which causes a motivation for informal work (Feige, 1990). In Pakistan, high tax rates are the significant barriers that distressing the size of the informal economy. It is frequently stated that the burden of high taxes leads to a rise in the extent of informal economy (Personal et al., 2010). Higher taxes induce employees to work

in the informal economy in an offer to avoid levies and increase profits. It is also indicated that a high variance in before and after tariff earnings causes an encouragement to evade taxes (Kamal, 2019). In Pakistan, only 1.21 million people pay formal taxes which is less than one percent of the overall population. The figure is the lowest in the world, therefore, each and every government in Pakistan lags behind the tax's targets (around Rs1000 billion annually), that is almost 70 percent of the possible revenue-losses (State Bank of Pakistan, 2019). Another factor of rising informal sectors is the weak-enforcement of laws that is why the greater the insight of risk of recognition, the lower will be the size of the informal economy (Cook & Nixon, 2000). Empirical evidence in this respect reveals that if the rule of law is strongly supported in a country, then there are fewer chances of workforces indulging in the informal economy. As an alternative, they will be focused more on the formal economy (Sookram & Watson, 2008). The World Bank (2015)'s report reveals that a significant majority (56%) of the informal workforce consider that operating as an informal business in Pakistan is not risky, 34% of the informal employees stated that it is slightly risky, while only 7% of the informal workforces believed that it is risky to run an informal business in this country. Tax morality is well-defined in the literature as an ethical responsibility to pay taxes, or trust in society by paying taxes. It is also described as the existence of an essential stimulus to pay taxes (Cummings et al., 2009). While looking into Pakistan prospect only 2.6 million businesses and individuals submitted/ filed their tax-returns to the tax authorities and paid taxes in Fiscal Year 2020-21 (FY 2020-21). The World Bank's latest figures show that Pakistan is rising just half of the tax capacity of the economy, leaving about two-third of the General

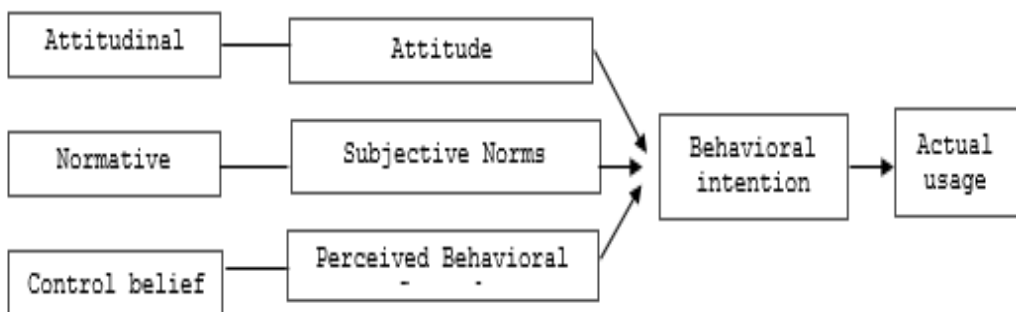
Sale Tax (GST) liabilities. In Pakistan, majority (42%) of the small businesses think that there is no benefit of registration, while a smaller yet significant share of them (27%) thinks otherwise. These results indicate lack of awareness of tax registration scheme between small business owners in Pakistan, which provide fuel in the acceleration of the informal economy. Informality usually establishes itself in many ways, particularly, it is established in land and housing possession, business ownership/ operations, and labor sectors. The following are the hypotheses of this study:

Ho1: SMEs attitudes influence their intention to adopt Informal to formal.

Ho2: SMEs Subjective Norms have influence on their intention to adopt Formal Sector.

Ho3: SMEs Perceived Behavior influence their intention to adopt Formal Sector.

In this study, we used the theory of planned behavior ([Ajzen, 1985](#)) and the theory of the technology acceptance ([Fred et al., 1989](#)). Figure 1 below shows the Theory of Planned Behavior:

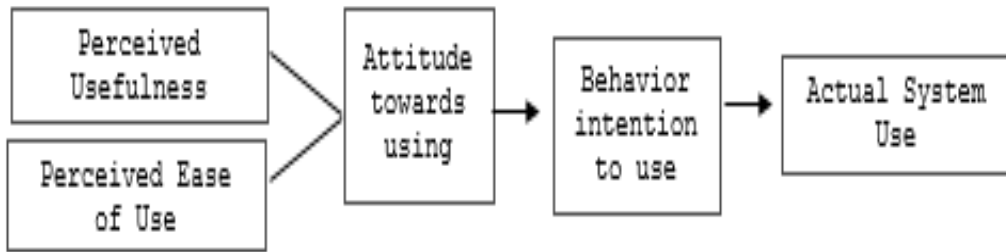


Source: (Ajzen, 1985)

Figure 1: Theory of Planned Behavior

An attitude is a scale to which a person has positive or negative feelings of the behavior of concern, and it needs a consideration of the results of performing the conduct. Subjective norms are the measurement of the perception. [Ajzen \(1985\)](#) explains that subjective norms are generally considered as a “function of thoughts” but with a different point of view. While reviewing of literature, we can say that perceived behavioral control is the measurement of the “perception study”, which includes the internal influence. Another variable under the theory of planned behavior is the ease or problem of execution of a certain outcome ([Wang, 2017](#)).

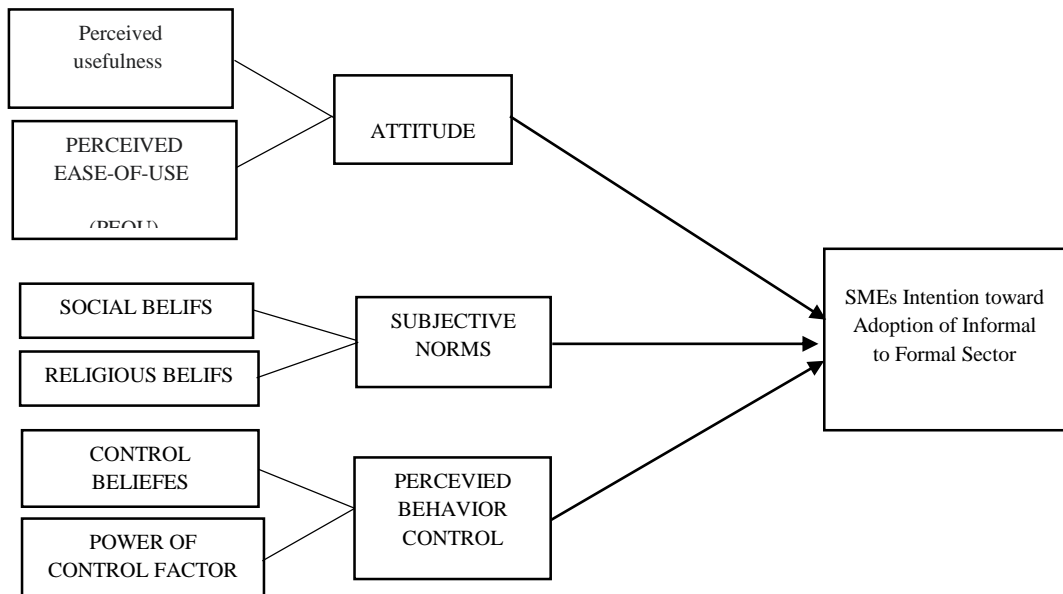
The theory of technology acceptance and attitude is modified by the theory of reasoned action, and the theory of planned behavior. The theory of technology acceptance is the finest theory to describe the intention of the person towards the adoption and the usage of technology. An intention is measured by the attitude of perceived usefulness, and by the perceived ease of use ([Fred et al., 1989](#); [Scherer et al., 2019](#); [Model et al., 1989](#)). Perceived usefulness is defined as "the scale to which an individual believes that the use of a specific system would increase his or her job performance". Additionally, perceived ease of use is defined by the scale or value of measurement to which individual trusts, that the use of specific tools would be easy or free of efforts. Figure 2 below shows the theory of Technology Acceptance:



Source: (Fred et al., 1989)

Figure 2: Theory of Technology Acceptance

2.1 Conceptual Framework



Source: Author's own compilation

Figure 3: Conceptual Framework, SME intention to Adopt Formal Sector

3. RESEARCH METHODOLOGY

A sample usually refers to the subset, smaller portion from the larger population. According to [Moore \(2009\)](#) the sample is a part of the population from which we collect data and can draw a conclusion about the whole population. The sample size of this study is 250 people from public and private sectors, out of which 234 responded. The study used convenience sampling, which is a type of non-probability sampling, and to collect firsthand data, the questionnaires were used. The data is analyzed with the help of Econometrics Software i.e., IBM-SPSS 20, Smart PLS, and SPSS. The validity and reliability are tested with the help of factor analysis technique. According to [Hair et al. \(2010\)](#) Cronbach's Alpha is a better indicator for reliability. If the value of Cronbach's Alpha is greater than 0.6, the constructs have the acceptable level of reliability.

4. DATA ANALYSIS AND INTERPRETATION

4.1 Profiles of Respondents

Table 2 below describes the demographic profiles of the respondents:

Table 2: Demographic Profile of Respondents

Variable	Frequency	Percentage (%)
Respondent of Gender		
Male	191	81.6
Female	43	18.4
Total	234	100.0
Respondent of Age		
18 to 25 years	36	15.4
25 to 30 years	149	63.7
35 to 50 Years	15	6.4

Continued		
Above 50 Years	34	14.5
Total	234	100.0
Respondent of Industry Types		
Trading Concern	12	5.1
Manufacturing Concern	130	55.6
Servicing Concern	92	39.3
Total	234	100.0
Respondent of Status		
Owner	54	23.1
Employee	180	76.9
Total	234	100.0
Respondent of Organizational Operation		
More than 20 years	73	31.2
10 to 20 years	82	35.0
5 to 10 years	13	5.6
Less than 5 years	66	28.2
Total	234	100.0
Respondent of Staff Employee		
Having 10 or more	28	12.0
More than 50 and less than 100	157	67.0
More than 100 and less than 250	10	4.3
Up to 250	39	16.7
Total	234	100.0
Respondent of Organizational Annual Sales		
Up to Rs.150 Million	29	11.1
Up to Rs.250 Million	160	68.4
up to Rs.800 million	48	20.5
Total	234	100.0

Source: Author's own compilation

4.2 Reliability Analysis

The Cronbach's Alpha coefficient is used to determine the variables' reliability. In general, the value of Cronbach's Alpha between 0.5-0.6 is considered acceptable,

and a coefficient of 0.8 or higher is considered high and good. Table 3 below shows the Reliability Analysis:

Table 3: Reliability Analysis

Reliability Statistics				
Cronbach's Alpha		N of Items		
0.923		4		
Item-Total Statistics				
Variables	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Attitude	93.9914	794.840	.845	.911
Subjective Norms	91.3836	900.506	.918	.867
Perceived Behavior Intention	104.3793	1171.708	.729	.935
	109.4009	1023.220	.897	.883

Source: Author's own compilation

The reliability of the attitude is 0.911 of 12 items. The Subjective norms had 11 items and their reliability was 0.867. Perceived Behavior's reliability is 0.935, and Intention of SMEs' owners and managers towards formal sectors has the reliability of 0.883. The results are consistent and can be considered good. Table 4 below shows the reliability and factor analysis of the variable Attitude:

Table 4: Reliability and Factor Analysis (Attitude)

KMO and Bartlett's Test				
Kaiser-Meyer-Olkin Measure of Sampling Adequacy				.938
Approx. Chi-Square				4489.112
Bartlett's Sphericity	Test	of Df		66
		Sig.		.000
Factor		Questions	Load factors	α

Continued

	A1	Attitude of SMEs Owners and Manger towards adoption of formal sector has favorable aspect	.880	
Attitude	A2	SMEs owners and managers attitude towards adoption of informal sector is principally a governance issue	.804	
	A3	SMEs Owners and Manger intend to adopt formal sector due to the creation of decent jobs in the formal economy and strengthen coherence of macroeconomic, employment, social protection and other social policies	.897	
	A4	SMEs Owners and Manger intend to adopt formal sector due to national development strategies include, where applicable, an integrated policy framework for the formalization of the informal economy	.867	
	A5	SMEs Owners and Manger intend to adopt formal sector to avail increased benefits of transition to formality, including about access to business services, finance, Infrastructure, markets, technology, skills programs and property rights	.866	.911
	PU1	Transformation toward formal Sector enable the SMEs' owner and managers to accomplish their tasks more quickly, productively and effectively on the job.	.770	
	PU2	Transformation toward formal Sector enable the SMEs' owner and managers to provide social security, safety and health, decent working hours and minimum wage, where such a protection exists.	.882	
	PU3	Transformation toward formal Sector enable the SMEs' owner and managers to improve the quality of work in providing better Customer's care.	.769	
	PU4	Overall, transformation toward formal Sector has made the SMEs' owner and managers to perform their job easier.	.792	
	PEOU1	Adopting formal sector makes SMEs' owner and managers easier to run their business.	.869	
	PEOU2	Working in formal sector enables SMEs' owner and managers clearer and more understandable toward their business goal.	.898	

Continued

PEOU3	Overall, The SMEs' owner and managers believes that adoption of informal to formal sector their business would be free from efforts.	.804
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Source: Author's own compilation

Table 4 explains the attitude of each item factor loading and overall Cronbach's Alpha. The overall reliability of the variable is 0.911, which is greater than 0.6, means that all the items have good factor score and acceptable and for the validity of the items and variables KMO and Bartlett is used which is significant that's explains that data is normal and valid. KMO value for attitude is 0.938 closer to 1 which is highly acceptable and Bartlett test value sig p value 0.000 which is also acceptable. Table 5 below shows the reliability and factor analysis of the variable Subjective Norms:

Table 5: Reliability and Factor Analysis (Subjective Norms)

KMO and Bartlett's Test				
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.				.907
Bartlett's Test of Sphericity	Approx. Chi-Square			3236.848
	Df			55
	Sig.			.000
Factor		Questions	Load factors	α
Subjective Norms	SN1	The SMEs' owner and managers intend and have knowledge to transform their business from informal to formal sector.	.817	
	SN2	The SMEs' owner and managers are aware that resources are available and that they can easily adopt informal to formal sector.	.854	

Continued

SN3	The SMEs' owner and managers think that to improve their business and to avail support by govt. adoption of formal sector will supportive.	.870	.867
SN4	Overall, The SMEs' owner and managers think that adoption of formal sector of their business will support to access the formal financing.	.894	
SB1	Most of SMEs owners and managers enter the informal economy not by choice but as a consequence of a lack of opportunities and berries in the formal economy and have no other means of livelihood.	.598	
SB2	SMEs owners and managers have social believe that business goals can be much easily achieved by the workers working in informal sector than worker working in the firm registered with government authorities.	.844	
SB3	SMEs owner and manager have common beliefs to not adopt formal sector, as it will support to avoid tax brackets.	.823	
SB4	SMEs owner and manager have social beliefs that formal sector is much easier for import, export, and helps to state economy.	.916	
RB1	Due to religious factor SMEs owner and manager think paying taxes is not their responsibility and are exploited that's why not intent to transform their business from informal to formal sector does.	.879	
RB2	Culture have influence to SMEs owner's manager transform their business from informal to formal sector.	.892	
RB3	The SMEs' owner and managers close business friends who have religious beliefs can influence the adoption of formal sector.	.908	

Source: Author's own compilation

Table 5 explains the factor loading of each item and over all reliability of subjective norms which is $\alpha=.867 > 0.6$ which is acceptable, the data gathered of the current study is reliable and KMO=0.907 and Bartlett P value 0.000 which means data

population is considered valid and normal. Table 6 below shows the reliability and factor analysis of the variable Attitude:

Table 6: Reliability and Factor Analysis (Subjective Norms)
KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.946
Approx. Chi-Square	2757.317
Bartlett's Test of Sphericity	Df
	28
	Sig.
	.034

Factor	Questions	Load factors	α
Perceived Behavior	PB1 The SMEs owner and manager usually intent to document their business due programs and policies of country that are relevant to the subject of facilitating transitions from the informal to the formal sector.	.782	.935
	PB2 The SMEs' owner and manager's intent to adopt formal economic sector because of the proportion of businesses around who also do.	.860	
	PB3 Overall, SMEs owners and manger have intention of registration of their firm due to economic benefits to the state.	.945	
	CB1 SMEs owners and manager beliefs that workers and economic units in the formal sector can have a large entrepreneurial potential and their creativity.	.905	
	CB2 The SMEs' owner and managers have beliefs that formal business boost up their performance	.832	
	PCF1 The SMEs' owner and managers have power of knowledge to achieve desired outcomes by registration of the firms/ by adopting formal sector.	.865	
	PCF2 The SMEs owner and manager have power of resources required for documentation of their business to achieve desired outcomes.	.840	
	PCF3 Overall, the SMEs' owner and managers have power of ability that enables to achieve desired outcomes by documentation of their business.	.839	

Source: Author's own compilation

Table 7 below shows the reliability and factor analysis of variable Intention:

Table 7: Reliability and Factor Analysis (Intention)

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.931
	Approx. Chi-Square	3012.888
Bartlett's Test of Sphericity	Df	21
	Sig.	.000

Factor	Questions	Load factors	α
Intention	I1 SMEs owners and Manager intent to adopt formal sector to use their firm name and address of the firm and of chief executive for business image building purpose.	.917	.883
	I2 SMEs owners and manager intent to adopt formal sector to avoid government limitations (i.e., use of banking channel) on undocumented firms.	.940	
	I3 SMEs owners and manager intent to adopt formal sector to avail income tax certificate issued by (FBR), IN the name of firm.	.882	
	I4 SMEs owners and Manger intent to registere their Capital in their own business name.	.929	
	I5 SMEs owners and manger intent to document the name and nature of the business with government.	.919	
	I6 SMEs owners and Manger intent to complete address of store with the name of store in-charge with cell & CNIC no.	.945	
	I7 Overall, SMEs Owners and Manager intent to adopt formal sector instead of working in undocumented economy.	.911	

Source: Author's own compilation

Table 7 explains the reliability statistics of intention and each item reliability of the variable which shows that $\alpha = .883 > 0.6$ it shows the goodness of the measures. KMO=.931 and Bartlett is p value 0.000 which shows the data is valid and comes from normal distribution.

4.3 Correlation Analysis

Table 8 below shows the results of correlation analysis:

Table 9: Correlation Analysis					
Correlations					
		Attitude	Subjective Norms	Perceived Behavior	Intention
Attitude	Pearson Correlation	1	.800**	.566**	.957**
	Sig. (2-tailed)		.000	.000	.000
	N	233	232	233	233
Subjective Norms	Pearson Correlation	.800**	1	.921**	.811**
	Sig. (2-tailed)	.000		.000	.000
	N	232	232	232	232
Perceived Behavior	Pearson Correlation	.566**	.921**	1	.611**
	Sig. (2-tailed)	.000	.000		.000
	N	233	232	234	234
Intention	Pearson Correlation	.957**	.811**	.611**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	233	232	234	234

***. Correlation is significant at the 0.01 level (2-tailed).**

Source: Author's own compilation

Table 8 depicts the correlations among the variables, Attitude, Subjective norms and Perceive behavior have positive and significant relationship with Intention of SMEs' owners and managers towards formal sector as the values are 0.957, 0.811 and 0.611 respectively.

4.4 Regression Analysis

Table 9 below shows the Model Summary to test our first hypothesis:

Table 9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.957 ^a	.915	.915	2.87388

a. Predictors: (Constant), Attitude

Source: Author's own compilation

Table 9 above shows that the model has R-value of 0.957 which defines the significant association between the dependent and independent variables, and regression model is a good. It means that the model shows approximately 91.5% variation. Table 10 shows the Analysis of Variance (ANOVA):

Table 10: Analysis of Variance (ANOVA^a)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	20627.590	1	20627.590	2497.537	.000 ^b
1 Residual	1907.869	231	8.259		
Total	22535.459	232			

a. Dependent Variable: Intention

b. Predictors: (Constant), Attitude

Source: Author's own compilation

Table 10 illustrates a significant relationship between attitude and SMEs owners and managers Intention towards formal sector. Table 11 below shows the coefficients:

Table 11: Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients	T	Sig.
	B	Std. Error	Beta	
1 (Constant)	-2.091	.548		-3.818 .000
Attitude	.657	.013	.957	49.975 .000

a. Dependent Variable: Intention

Source: Author's own compilation

Table 11 shows the coefficients analysis. It has been assessed that the consistent identified with the beta in the model of relapse is -2.091. In likeness to this, the huge estimation of the consistent is 0.00 which is under 0.05. Accordingly, it has a positive impact. On the opposite side, the estimation of beta of attitude is 0.657. This represents that the difference in one unit in attitude is results in the 0.847 change in the SMEs owners and managers intention towards informal to formal. Likewise, the critical estimation of attitude account is 0.00 which is under 0.05 it implies that it is huge. Henceforth, from the coefficient table, it very well may be guaranteed that the effect of attitude on SMEs owners and manger intention towards informal to formal is critical. Table 12 below shows the Model Summary, to test our second hypothesis:

Table 12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.811 ^a	.657	.656	5.78222
a. Predictors: (Constant), Subjective Norms				

Source: Author's own compilation

Table 12 gives the value of R square, which is 0.657, means that the variance in Subjective Norms defines 65.7% of the variance in SMEs owners and managers intention towards formal sector. The value of the adjusted R is similar i.e., 0.656. Table 13 shows the Analysis of Variance (ANOVA):

Table 13: Analysis of Variance (ANOVA^a)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	14752.880	1	14752.880	441.253	.000 ^b
	Residual	7689.840	230	33.434		
	Total	22442.720	231			

a. Dependent Variable: Intention

b. Predictors: (Constant), Subjective Norms

Source: Author's own compilation

Table 14 below shows the coefficients:

Table 15: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-4.690	1.402		-3.346	.001
Subjective Norms	.680	.032	.811	21.006	.000

a. Dependent Variable: Intention

Source: Author's own compilation

The above tables show the beta value of the subjective norms is 0.680 which illustrate that one unit change in the subjective norms brings 0.680 unit change in the SMEs owners and managers intention towards formal sector. Similarly, the significant value is 0.00 which is less than 0.05 which depicts the significance between the above two variables. Table 15 below shows the Model Summary to test our second hypothesis:

Table 15: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.611 ^a	.374	.371	7.82216

a. Predictors: (Constant), Perceived Behavior

Source: Author's own compilation

Table 15 above shows that the value of R square is 0.374. It signifies that the variance in Perceived Behaviour defines 37.4% of the variance in intention of SMEs owners and managers towards formal sectors. The value of the adjusted R remained similar in the entire regression model which is 0.371. Table 16 below shows the Analysis of Variance (ANOVA):

Table 16: Analysis of Variance (ANOVA^a)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8469.437	1	8469.437	138.421	.034 ^b
	Residual	14195.213	232	61.186		
	Total	22664.650	233			
a. Dependent Variable: Intention						
b. Predictors: (Constant), Perceived Behavior						
Source: Author's own compilation						

Table 17 below shows the coefficients:

Table 17: Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.876	1.757		2.206	.028
	Perceived Behavior	.689	.059	.611	11.765	.034
a. Dependent Variable: Intention						
Source: Author's own compilation						

Table 17 above gives the beta value of the perceived behaviour 0.689 which illustrates that one-unit change in the perceived behaviour brings 0.689 unit change in the intention of SMEs owners and managers towards informal to formal sectors. Similarly, the significant value is 0.034 which is less than 0.05 which depicts the significance between the perceived behaviour and SMEs owners and managers' intention towards informal to formal sectors. Therefore, there is a significant effect between IVs and DVs.

5. CONCLUSIONS AND RECOMMENDATIONS

The main aim of this study is to determine the intention of SME owners and managers towards the adoption of the formal sector from the informal sector in southern Punjab, Pakistan. The empirical results show that there is a significant impact of SMEs attitude on their intention to adopt informal to formal sector. Also, there is a significant impact of SMEs Subjective Norms on their intention to adopt.

The SMEs Perceived Behavior have influence on their intention to adopt Informal to formal sector. An attitude, the subjective norms, and the perceived behavior have significant impacts on SMEs managers and owners' intention toward adoption of formal sector. While review and study of previous work some impediments are being faced by SMEs like Government Sector Corruption, Risk of Detection, Tax Morality, Awareness of the Tax Registration System, Challenges towards Government, Age of the Informal Worker, Income of the Informal Worker, and Education and Skill Levels of the Informal Workers.

5.1 Recommendations

This study has some recommendations that can be considered in future studies which could not be measured due to time constraints and upheaval caused by the pandemic. New parameters of the research and some additional tests and experiments can be implemented in the future.

- This study suggest to run a systematic equation model through Smart PLS for testing the results of the research study.
- A detailed review of current processes, and innovative initiatives to test alternative approaches is proposed.
- Several questions can be increased in the questionnaire to get more information about the understanding of SMEs owners and managers of the informal to the formal sectors.

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