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STRATEGIC DEVIATION IN THE INFORMAL ECONOMY: EVIDENCE FROM SOUTH AFRICAN TOWNSHIPS (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**STRATEGIC DEVIATION IN THE INFORMAL ECONOMY:
EVIDENCE FROM SOUTH AFRICAN TOWNSHIPS**

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Principal Topic

Strategic deviation—the degree to which firm strategy differs from industry norms—is an essential component of entrepreneurial endeavors as it allows existing firms to differentiate themselves from competitors and adapt to new models of doing business (Haynes and Hillman, 2010). Despite a growing need to examine entrepreneurial activities in the informal economy (Ketchen et al., 2014; Webb et al., 2009), extant research on strategic deviation has been limited to businesses that operate within the boundaries of formal institutions (e.g., laws, regulations). In the context of impoverished settings and developing countries, formal institutions are less salient and informal institutions such as norms, values, and beliefs, define socially acceptable behaviors and play a major role in dictating organizational behaviors (Schneider, 2002). They provide legitimacy and encourage conformity with social groups' shared behaviors (Aldrich and Baker, 2001). As a result, informal businesses tend to comply with informal institutional pressures by adopting mimetic behaviors in order to gain legitimacy (DiMaggio and Powell, 1983). The resulting lack of strategic differentiation is reinforced when firms are formed out of necessity—because of a lack of alternative employment opportunities (Block et al., 2015). The dominance of isomorphic behaviors in the informal and necessity environment, coupled with the potential competitive advantage offered by strategic deviation, makes understanding the origins of strategic deviation that does exist of utmost importance. This study addresses this gap.

Method

Our sample is comprised of spaza shops—local and primarily informal convenience stores selling every day small household items—located in Cape Town townships. Enterprises across 10 townships were surveyed by applying a small area census method which uses GPS to identify the location of the business (Sustainable Livelihood Foundation) and complete sector-specific surveys (Charman et al., 2015). The 1,051 completed surveys conducted in the spaza sector are the focus of this study. To capture strategic deviation, we measured the absolute value of the difference between mean industry price and the price practiced by a focal spaza shop for most common items, which are cigarettes, sugar and eggs.

Results and Implications

This study has two main implications. First, rather than presuming strategic conformity within the informal economy, we focus on strategic deviation that exists and seek to explain it. This provides a more accurate view of the entrepreneurial activity that is taking place within the heterogeneous context of the informal economy. Second, we identify owner-specific factors that constrain or enable strategic deviation within the unique institutional context of the informal economy, providing insights into the training and development of microenterprises in such settings.

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