

# ILLEGAL ENTREPRENEUR: NECESSITY BASE ENTREPRENEUR OR OPPORTUNITY BASE ENTREPRENEUR (Exploratory Study of Illegal Entrepreneurship in Padang City)

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## Abstract

The development of business opportunities and life demands have led many entrepreneurs to operate illegally, including those in Padang City, West Sumatra. This study aims to understand the motivations behind illegal entrepreneurs in Padang City, West Sumatra, for starting their businesses. The research employs a qualitative method using thematic analysis with NVivo 12 Plus software for data processing. The findings reveal that the motivations for illegal entrepreneurship in Padang City are driven partly by necessity (Necessity-Based Entrepreneur) and partly by the recognition of business opportunities (Opportunity-Based Entrepreneur). Necessity-based illegal entrepreneurship is observed in the sand mining sector and the counterfeit products sector. Conversely, opportunity-based entrepreneurship is identified in the thrifting sector and also in the counterfeit products sector. Additionally, the study finds that some illegal entrepreneurs are driven by personal interests or comfort, particularly in the thrifting and sand mining sectors. Generally, illegal businesses in Padang City operate without permits and do not pay taxes. A portion of these entrepreneurs are unaware of the legal consequences of their activities, while others are cognizant of the potential repercussions of engaging in illegal businesses.

**Keywords:** economic growth; Illegal entrepreneur; necessity-based entrepreneur; opportunity-based entrepreneur; regulation

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## INTRODUCTION

In maintaining livelihood, there are various job options or employment statuses that can become someone's profession. According to Indonesia's Central Statistics Agency (BPS), there are seven common job categories in Indonesia, one of which is self-employment or entrepreneurship. The profession of becoming an entrepreneur is now a choice for some Indonesian people. Being an entrepreneur has many purposes, such as fulfilling needs, increasing wealth, or taking advantage of opportunities. Therefore, in carrying out their current work, there are various motives that underlie someone's choice of this profession.

Based on data from BPS Kota Padang in 2024, the growth of Micro, Small, and Medium Enterprises (MSMEs) in Padang City increases every year. The increase in the number of MSMEs in Padang City can be seen in Table 1.

**Table 1.** The Development of MSMEs in Padang City

No	Year	Number Of MSMEs
1	2017	46.571
2	2018	47.253
3	2019	48.425
4	2020	48.467
5	2021	48.256
6	2022	48.544

The data shows that the number of MSMEs has increased from year to year in Padang City. In 2017, there were 46,571 MSME units, and this number increased to 48,544 MSMEs in 2022. This indicates that many residents of Padang City have chosen the profession of entrepreneurship. According to Games (2023), there are at least two types or motives for becoming an entrepreneur: necessity-based entrepreneurs and opportunity-based entrepreneurs. According to Fairlie et al. (2020), necessity-based entrepreneurs are individuals who were initially unemployed before starting a business and do so to meet their needs. On the other hand, opportunity-based entrepreneurs are those who were not unemployed before starting a business, such as wage or salary workers, students, or individuals not actively seeking employment. According to Buheji (2018), necessity-based entrepreneurship arises due to various impacts of circumstances, one of which is the lack of other livelihoods or jobs. Therefore, it can be said that the motivation for someone to become an entrepreneur is based on necessity.

The current era and globalization make entrepreneurship challenging and often out of sync with existing regulations, especially in uncertain economic conditions. As a result, many entrepreneurs resort to various measures to sustain their livelihoods or meet their needs. A prevailing phenomenon today is the rise of entrepreneurs operating illegally. In Padang City, illegal entrepreneurs appear in various forms, ranging from unlicensed street vendors to small-scale businesses without legal permits, and even unlicensed mining operations. They frequently operate in the informal sector, which is difficult for the government to regulate.

Padang City, the capital of West Sumatra Province, has a population of 919,145 according to BPS data from 2022. With the impact of modern times and globalization, various social issues, including illegal entrepreneurship, are emerging. Entrepreneurship has long been recognized as a key driver of economic growth and social development. However, not all entrepreneurial activities comply with existing legal frameworks. In various cities across Indonesia, including Padang City, there is a phenomenon of illegal entrepreneurs operating beyond formal legal boundaries. This phenomenon is interesting to study as it reflects various social, economic, and cultural aspects of society.

According to McElwee et al. (2014), illegal activities are those that: (1) are not legally permitted and violate the law, are unlicensed, or are prohibited; or (2) are not approved or permitted due to moral or ethical reasons. McElwee et al. (2014) describe illegal

entrepreneurship as a process where entrepreneurs provide illegal services or products to customers, or legal services or products through illegal means. Various forms of illegal businesses include: 1. Trading prohibited goods or services such as the sale of narcotics, illegal drugs, prostitution, wildlife trafficking, and illegal weapons; 2. Evading taxes or customs duties on legal goods and services; 3. Using unfair and illegal practices to gain an advantage, including counterfeit goods (Hall et al., 2014) and engaging in organized criminal activities (Smith et al., 2013).

Padang City, as a major economic and social center in West Sumatra, is not immune to the effects of globalization and economic uncertainty. Unemployment and economic inequality can also be issues in this city. A tangible example of illegal activities in Padang City includes the emergence of illegal mining operations and the sale of second-hand clothing (thrifting). Based on preliminary surveys conducted by researchers, at least 5 illegal second-hand clothing vendors were found in the Pauh District, and at least 10 illegal second-hand clothing vendors were identified in the Padang Raya Market. Additionally, according to the Coordinator of Mining Inspectors for West Sumatra Province (Sumbar), Hendri M Siddik, there is only 1 legal gold mining permit in Sumbar, with all other mining activities being unlicensed. Besides illegal mining, other forms of illegal activities commonly found in Padang City include rampant drug use and prostitution. According to data from the Padang City Satpol PP, from January to October 2022, 337 illegal couples were apprehended. In 2023 alone, the Padang District Attorney's Office destroyed evidence from cases throughout the year, including 18.3 kilograms of marijuana, 213 grams of methamphetamine, 7 boxes of illegal cigarettes, 2,314 illegal pills, and several sharp weapons and methamphetamine smoking devices. Despite this, illegal businesses in Padang City are growing rapidly; however, these illegal enterprises have not been recorded in detail or detected by the relevant authorities or enforcement agencies. Although illegal businesses are present and numerous in Padang City, they remain unregistered.

## METHOD

The purpose of this research is to understand illegal entrepreneurs in Padang City and to determine whether the motivations of these illegal entrepreneurs in Padang City, West Sumatra, align with either necessity-based entrepreneurship or opportunity-based entrepreneurship. Informants for this study were selected using purposive sampling, as they needed to meet the researcher's criteria. This study involved 6 informants who operate illegal businesses. Data collection was conducted through observation and semi-structured interviews.

This study will employ thematic analysis techniques. According to Heriyanto (2018), thematic analysis is a fundamental method for analyzing qualitative data. It is essential for

researchers conducting qualitative research, as it allows for the exploration of actual phenomena. Fereday and Cochrane (2006) define thematic analysis as the most effective method for in-depth exploration of qualitative data to identify patterns within specific phenomena and explain the extent to which these phenomena occur based on the researcher's perspective.

The steps in qualitative research using thematic analysis are similar to other analytical methods. However, before proceeding to the next stages of analysis, a researcher needs to have a thorough understanding of the research data collected. Heriyanto (2018) divides thematic analysis into three stages, including:

1. Understanding the Data; To facilitate data analysis, it is crucial for researchers to thoroughly understand and immerse themselves in the qualitative data they have collected. Rereading interview transcripts or repeatedly reading them is an effective method for this. Listening to recorded interviews or watching video recordings made during the data collection process can also be very helpful, as they allow researchers to gain additional insights from the conversations. Marking key points that may be found within the transcripts or recordings can assist in identifying important information. Researchers will find it useful to keep notes, as this helps in organizing and reading the data more effectively. Researchers are required to not only understand the data at a surface level but also to uncover deeper meanings or insights contained within the data. This necessitates that researchers engage in frequent reading, critical analysis, and reflection to discern the underlying significance of the information found in their study.
2. Coding; The second step in thematic analysis is coding. Coding, also referred to as labeling, involves identifying features within the data that relate to the research questions. In this research, the researcher is responsible for determining which data should be coded within the interview transcripts. The term "coding" is used to denote the process of assigning codes to the collected field data. According to Miles et al. (2014), labels applied to descriptive or inferential information during research are known as codes. Codes can vary in size and may be direct, descriptive labels, or more evocative or complex. In this research, coding is intended to facilitate the categorization of data segments, allowing researchers to identify, extract, and group related segments quickly according to research questions, constructs, hypotheses, and themes. Through the coding process, researchers can reflect more deeply on the information collected in the field and achieve more detailed results and interpretations of the data's meaning.
3. Identifying Themes; The next step is to identify themes, which is the subsequent phase following coding. Themes will reflect the key aspects related to the research problem. Researchers will determine emerging themes based on the data collected. Researchers have the freedom to interpret the data in their efforts to identify research themes, which

means that the research findings may vary depending on how effectively the researcher interprets the data (Heriyanto, 2018).

In analyzing the results of this research, NVivo 12 Plus will be used as a tool to facilitate data analysis and coding of field notes, personal notes, as well as audio and video recordings of interviews. The data will then be presented using project maps and interpreted as the findings of the study.

## RESULTS AND DISCUSSION

### Motivations for Illegal Enterprises

In this study, the informants consisted of 6 individuals from 3 different business sectors: Informants 1 and 2 were involved in the thrifting business, Informants 3 and 4 were engaged in illegal sand mining, and Informants 5 and 6 operated businesses dealing with counterfeit or imitation products. According to Caliendo et al. (2023), entrepreneurial motivation is the internal drive an individual has to start and develop a new business. Additionally, Rani (2012) provides further insights into entrepreneurial motivation. The findings reveal that the motivation for illegal entrepreneurship in Padang City is driven by both external and internal factors. The research indicates that illegal entrepreneurship in Padang City is influenced partly by necessity-based entrepreneurship and partly by opportunity-based entrepreneurship. The motivations for illegal enterprises in Padang City are illustrated in Figure 1.

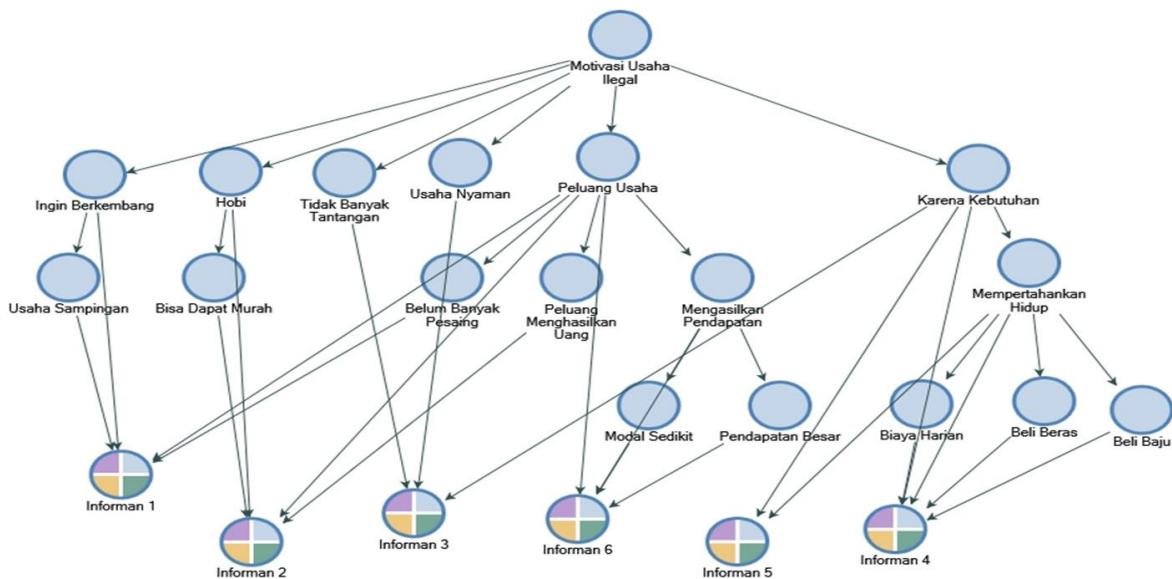


Figure 1. Motivations for Illegal Enterprises

Source: NVivo 12 Plus Project Map Data Visualization.

Based on the data visualization from the NVivo 12 Plus Project Map analysis and the description above, the informants involved in illegal businesses can provide support for this research. These include:

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#### 1. Informant 1

Informant 1 stated that the primary motivation for starting an illegal thrifting business was recognizing a market opportunity (Opportunity Base Entrepreneur) with limited competition. Additionally, it was found that another motivation for Informant 1 to start this business was the desire to grow and use it as a side venture. Informant 1 believed that by adding thrifting as an extra income stream, they could develop themselves and expand their sources of income, despite knowing that the business violated existing regulations.

#### 2. Informant 2

Informant 2 mentioned that their motivation for running an illegal thrifting business was seeing a promising market opportunity (Opportunity Base Entrepreneur). Furthermore, the research findings revealed that Informant 2's motivation was also driven by their personal hobby. Informant 2 enjoyed thrifting because it allowed them to acquire genuine items at low prices, which not only provided financial benefits but also personal satisfaction. Thus, the thrifting business became not just a source of income but also a way to indulge in their interest in branded items at affordable prices.

#### 3. Informant 3

Informant 3 stated that the primary motivation for starting an illegal sand mining business was to meet daily living needs (Necessity Base Entrepreneur). This business was operated to fulfill essential daily requirements. Additionally, the findings revealed that the informant chose illegal sand mining because they felt comfortable with this type of work and did not face many challenges. This comfort provided additional motivation for the informant to continue their business despite knowing it violated existing regulations.

#### 4. Informant 4

Informant 4 stated that the primary motivation for running an illegal sand mining business was to meet daily living needs (Necessity Base Entrepreneur). This business was operated to sustain everyday life and ensure that all daily necessities, such as rice, clothing, and other essentials, were covered. For Informant 4, illegal sand mining provided a means to earn enough to cover basic needs and support their family.

#### 5. Informant 5

Informant 5 indicated that the main motivation for running a business dealing in counterfeit goods was to sustain life (Necessity Base Entrepreneur). The informant emphasized that the primary drive was to meet daily living expenses and fund their child's education. By engaging in the counterfeit goods business, the informant hoped to provide a better life for their family despite knowing that the business contravened existing regulations.

#### 6. Informant 6

Informant 6 revealed that their motivation for running a business in counterfeit products was seeing a business opportunity (Opportunity Base Entrepreneur) with substantial income

potential. Initially, the informant started the business as a trial or as a side activity, but over time, they recognized the lucrative prospects of the venture and decided to continue. This indicates that the informant's motivation was driven not only by a desire to try something new but also by the ambition to leverage existing opportunities for financial gain.

The research findings indicate that half of the illegal entrepreneurs in Padang City are motivated by necessity (Necessity Based Entrepreneur). They are compelled to run these businesses to meet daily needs, primarily due to insufficient income. Meanwhile, the other half are motivated by opportunities (Opportunity-Based Entrepreneur) in the market, seeking to capitalize on the potential profits of illegal enterprises and the lack of stringent regulations. Additionally, some entrepreneurs are driven by personal hobbies and interests.

#### ***Necessity-Based Entrepreneur***

Based on the research findings, the study identified illegal entrepreneurship (Illegal Entrepreneur) in Padang City that is motivated by daily living needs (Necessity-Based Entrepreneur). This includes informants involved in illegal sand mining (Informants 3 and 4) and those dealing in counterfeit products (Informant 5). These necessity-based illegal entrepreneurs started their ventures due to insufficient living conditions, pressing economic situations, and a lack of viable job options to meet their needs. Consequently, they resorted to starting illegal businesses to fulfill their daily requirements.

#### ***Opportunity-Based Entrepreneur***

Based on the research findings, the study identified illegal entrepreneurship (Illegal Entrepreneur) in Padang City that is motivated by recognizing business opportunities (Opportunity-Based Entrepreneur). This includes informants involved in thrifting (Informants 1 and 2) and those dealing in counterfeit products (Informant 6). These opportunity-based illegal entrepreneurs started their ventures driven by the primary motivation to gain additional income and increase their wealth, despite the businesses being illegal according to the law.

#### ***Illegal Entrepreneur***

The findings indicate that illegal entrepreneurship in Padang City is characterized by a majority of businesses operating without licenses and without the obligation to pay taxes. Some illegal entrepreneurs are unaware that their operations are illegal, while only a portion is aware of the illegality of their businesses. The research also revealed a lack of stringent oversight, such as raids, enforcement actions, and penalties imposed on illegal business operators in Padang City.

The study shows that many illegal entrepreneurs in Padang City start their businesses due to economic pressures and a lack of alternative employment. This is consistent with the theory of O'Donnell et al. (2024), which suggests that those involved in illegal sand mining generally lack other job options to meet their daily needs. Economic conditions force them to

seek alternative sources of income, even if it means violating regulations. Individuals engage in illegal entrepreneurship because they believe there are no other viable job options that can provide a decent or desired livelihood.

The research highlights that illegal entrepreneurship in Padang City is driven by two main motivations: necessity and opportunity. This aligns with the theory of Núñez (2024), which distinguishes between necessity-based and opportunity-based entrepreneurship. Some illegal entrepreneurs are driven by the need to meet basic living requirements, while others are motivated by the opportunity to achieve greater profits

## CONCLUSION

Based on the results and discussion, it can be concluded that illegal entrepreneurship in Padang City is driven by both internal and external motivations. Illegal businesses driven by necessity (Necessity-Based Entrepreneur) include those involved in sand mining and some counterfeit goods operations (informants 3, 4, and 5). On the other hand, illegal businesses driven by opportunity (Opportunity-Based Entrepreneur) are those involved in thrifting (informants 1 and 2) and counterfeit products (informant 6). The findings also reveal that illegal businesses in Padang City generally operate without permits, do not pay taxes, and that some illegal entrepreneurs are unaware that their activities are illegal, while others are aware and acknowledge the illegality of their operations.

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