

Factors influencing the intention of households to formally convert their business: A study in Hanoi city, Vietnam

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Date of Submission: 03-04-2026

Date of Acceptance: 14-04-2026

Abstract:

In the context of Vietnam's rapidly shifting economy towards digitalization and transparency, the transformation of household businesses from the informal to the formal sector has become an urgent requirement to ensure sustainable development. This study aims to identify and analyze the factors influencing the intention of household businesses in Hanoi to transform into formal enterprises. Based on the Theory of Planned Behavior (TPB), the study proposes a model including the following independent variables: access to capital, educational level of the household head, ability to use technological equipment, business location, and annual revenue. A quantitative research method was applied through a questionnaire survey of 112 household businesses in Hanoi. Data was analyzed using a binary logistic regression model. Empirical results show that all five proposed factors have a positive and statistically significant impact on the intention to transform into formal enterprises. The study confirms that formal transition is not merely an administrative decision but a multifaceted behavioral decision, simultaneously influenced by both financial and non-financial factors. Based on these findings, the paper proposes key policy implications such as: strengthening credit connectivity, promoting digitalization in tax and accounting management, and organizing capacity-building training programs for household business owners to support effective integration into the formal economy.

Keywords: Household businesses, intention to formalize, informal sector, Planning Behavior Theory, Hanoi

I. Introduction

Over the past two decades, international studies on the transition from the informal to the formal sector have flourished in developing economies, forming a rich theoretical and empirical evidence base on the intentions and decisions of businesses to formalize (Jaramillo, 2009; Traore Nohoua, 2021; Zylfijaj et al., 2020). Generally, the

results show that the decision to formalize is simultaneously influenced by economic factors (size, revenue, access to finance), institutional factors (transparency, costs and complexity of administrative procedures), and behavioral factors (perceived benefit-cost, perceived control over behavior, expectations of growth) (Mukorera, 2019; Moyo, 2022). Besides cost-benefit theory-based approaches (McKenzie & Sakho, 2007; Benhassine et al., 2017), recent studies emphasize the mediating role of behavioral factors, showing that economic incentives only come into play when business owners feel they have sufficient capacity to make the transition (Adebanji, 2025; Rania, 2023). At the same time, empirical evidence also points to a gap between intention and actual behavior, as initial registration cost support is insufficient to encourage formalization if long-term benefits and growth prospects are underestimated (Jaramillo, 2009; Maniraguha, 2020).

These conclusions are particularly relevant in the context of Vietnam, where the small and medium-sized enterprise (SME) sector plays a central role in economic growth and stability. According to the Ministry of Finance, the majority of SMEs in Vietnam originate from family businesses – a traditional, small-scale, and flexible business model suited to the socio-economic conditions of the early stages of development. These characteristics also expose structural limitations in the household business sector, such as a high degree of informality (CIEM, 2021; MPI & GIZ, 2020). These limitations become increasingly apparent as the economy moves towards digitalization, transparency, and modern management standards. Meanwhile, the period of 2025–2026 marks a turning point in policy management of the household business sector in Vietnam. Resolution 68-NQ/TW dated May 4, 2025, of the Politburo stipulates the policy of completely abolishing the lump-sum tax system for business households by 2026 at the latest, replacing it with a tax management mechanism based on actual revenue and expenses. Simultaneously, Decree 70/2025

mandates the use of electronic invoices for business households with annual revenue of VND 1 billion or more, or operating in sensitive sectors. These reforms not only change the tax collection method but also place business households before the requirement to comply with accounting standards, data management, and financial transparency similar to enterprises.

Studies in Vietnam have revealed some initial findings regarding the transition of individual business households to formal enterprises. For example, researchers point out that the unclear legal framework and high compliance costs cause many households to maintain an informal status, especially when the expected benefits from formalization do not sufficiently offset the costs (Ha Nam Khanh Giao et al., 2020; Nguyen Van Anh et al., 2022). Other studies focus on conversion drivers, legal barriers, lump-sum taxation, and demographic factors (Phan Thi Thanh Thuy, 2024). However, many important variables suggested in international reviews have not been addressed in studies in Vietnam. Furthermore, most studies stop at the context of outdated policies while regulations on mandatory electronic invoices and sales tax have not yet been enacted.

To address these issues, this study proposes a research model on factors influencing the intention of household businesses to formally convert, based on the Theory of Planned Behavior (TPB; Ajzen, 1991) model. These factors include: access to capital, educational level of the business owner, ability to use technological equipment, location of operation, and annual revenue. The results from this study will add empirical evidence on the intention of household businesses to formally convert in the socio-economic context of Vietnam. In addition, the paper will also provide policy implications for designing support programs, reforming procedures, and promoting formal conversion for the household business sector.

II. Theoretical basis and research hypotheses

2.1. Concept and characteristics of household businesses

In the Vietnamese legal system, household businesses are a specific form of business organization, recognized and regulated by the Enterprise Law and related decrees. According to the 2020 Enterprise Law, a household business is an entity registered and established by an individual or members of the same household, liable for its business activities with all of its assets, and without legal personality. Household businesses typically operate based on the owner's own capital and personal experience, with limited division of labor

and financial transparency, and apply a simpler accounting and tax regime compared to enterprises. Legal documents such as Decree 78/2015/ND-CP and Decree 01/2021/ND-CP emphasize the basic characteristics of household businesses: small scale, simple management structure, easy registration, and easy termination of operations. Thus, from a legal standpoint, household businesses are designed to facilitate the operation of small-scale businesses within the legal framework, but with minimal compliance, flexibility, and low costs.

In the field of economic and management research, household businesses are often viewed as part of the informal economic sector and are referred to as informal households. According to the classic views of De Soto (1989) and the ILO (2002), informal households are small economic units operated by households, not fully registered within the legal framework, and operating largely outside the protection of the legal system. This perspective emphasizes the spontaneous, informal, and legally non-existent nature of the household business sector.

Current research has shifted its approach to household businesses. Specifically, Benjamin and Mbaye (2012) view household businesses as small production units relying primarily on family labor, lacking accounting systems, and not fully complying with tax regulations or business standards. Meanwhile, Grimm, Knorringer, and Lay (2012) describe these units as one-person or household businesses operating outside the formal business sector and facing limitations in accessing credit, training, and growth support resources.

Household businesses possess distinct characteristics that differentiate them from formal enterprises in terms of scale, organization, and scope of operation. Firstly, household businesses typically operate on a small scale, often with only one business location and employing no more than 10 workers as stipulated by law. Those employing 10 or more workers are required to register as enterprises. This small scale also results in a simpler organizational structure, lacking the professional management apparatus of a formal enterprise, and the household head often directly oversees daily operations. Unlike enterprises, which can open branches, representative offices, or business locations in multiple places, household businesses are limited by their isolated organizational model, thus significantly restricting their potential for expansion.

2.2. The concept of formal conversion

Formal transformation is the process by which a household business transitions from an informal operating state to a fully protected business

within the legal framework of the State, usually in the form of a private enterprise, limited liability company, or small and medium-sized enterprises (SMEs). This is a transition from a family-based, small-scale business with low legal compliance to a model with legal personality, subject to legal regulation, and participating in the formal economic system.

In development economics, De Soto (1989) laid the theoretical foundation by viewing formal transformation as the process of “bringing informal economic units into the formal sector so that they are protected by law and have access to development resources.” Therefore, the nature of formal transformation is not merely an administrative procedure, but a change in rights, obligations, and the level of integration with the formal market. Scholars such as Maloney (2004) and McKenzie (2021) argue that formal transformation is the process of expanding the formal constraints of a business unit through business registration, tax compliance, insurance, and labor. That is, when a household business becomes an enterprise, it not only changes legally but also shifts to a more competitive business environment, with responsibilities for financial transparency, tax transparency, and standardized governance processes.

To determine whether a household business has officially transitioned, legal and economic criteria reflecting its level of integration into the formal economic sector must be considered. First and foremost, the core and most important criterion is business registration and the issuance of a Business Registration Certificate, demonstrating that the household business has transitioned from individual status to the legal status of a business entity under the 2020 Enterprise Law. This is also the boundary commonly used in international studies, such as Rand and Torm (2012), to distinguish between the formal and informal sectors. Furthermore, a household business is only considered fully formalized when it complies with its tax obligations, including mandatory taxes such as value-added tax, corporate income tax or personal income tax (in the case of a private enterprise), business license fees, and periodic tax reporting. Tax compliance is an important indicator of formality and transparency, emphasized by Fajnzylber et al. (2011) as one of the pillars of formalization. Another important criterion is the application of accounting and financial reporting systems, showing that the business has established a system of record-keeping, invoicing, and documentation according to accounting standards for small and medium-sized enterprises. This increases transparency, supporting

the business's access to credit and the signing of economic contracts. At the same time, formal businesses must comply with labor regulations, including signing labor contracts, paying wages according to regulations, and paying social, health, and unemployment insurance for employees. The level of labor compliance is a criterion that reflects the degree of integration into the social security system and legal responsibility in the use of labor.

2.3. Theory of Planned Behavior (TPB)

According to TPB, an individual's actual behavior is determined primarily by their intention to perform that behavior (Ajzen, 1991). Behavioral intention is formed from three main elements: attitude toward the behavior, social norms, and perceived control over the behavior. Attitude in TPB is defined as an individual's positive or negative evaluation of the behavior they intend to perform. This attitude is influenced by personal beliefs about the outcome of the behavior and personal evaluations of how to perform that behavior.

Attitudinal determinants include expected values and beliefs about the impact of the behavior, such as the benefits of business registration, pressure from the community or partners, and perceptions of the feasibility of the conversion influencing the decision to formally convert the business. Subjective norms are the business owner's perceptions of how those around them—family, friends, business partners, or regulatory bodies—assess the conversion of the sole proprietorship into a formal enterprise. This factor is influenced by social beliefs and expectations of those who play a key role in the business registration decision. For example, if the community and partners believe that formalization will bring prestige and business opportunities, the business owner will be more inclined to want to formally register. Perceived behavioral control reflects the extent to which the business owner feels capable of making the conversion. This is based on an assessment of management capacity, legal knowledge, financial resources, and available time. Perceived behavioral control is also influenced by potential barriers, such as complex administrative procedures, registration costs, or potential legal risks. These factors directly affect the decision to formalize the process.

2.4. Research Hypotheses

Access to capital reflects the extent to which household heads believe that transitioning to a business will open up opportunities to access formal financing, more transparent loan procedures, and a higher likelihood of receiving credit support. Moyo (2022) shows that access to capital is one of the

strong drivers of informal business transformation in Africa; Mukorera (2018) and Traore (2021) indicate that access to capital creates growth expectations, thereby enhancing the trend toward formalization. In Vietnam, research by Ha Nam Khanh Giao (2020) also emphasizes that the need for loans and the desire to access credit are important factors influencing the decision to transition to a business. Therefore, this study proposes the following hypotheses:

H1: Access to capital (V) has a positive impact on the intention (YD) of household businesses to formally convert.

Furthermore, Moyo (2022), Benhassine et al. (2017), and Jaramillo (2009) all indicated that households with higher education levels are more likely to perceive the long-term benefits of formalization, understand legal regulations better, and have a higher tendency to switch. Based on this, the study proposes the hypothesis:

H2: Educational attainment (HV) has a positive impact on the intention (YD) to formally convert household businesses.

The use of technological devices such as computers, smartphones, accounting software, or sales management applications reflects the level of digitalization in the operations of household businesses. Studies by Jaramillo (2009) and McKenzie & Paffhausen (2019) indicate that access to technology helps household businesses handle administrative procedures more conveniently, access legal and tax information quickly, and significantly reduce compliance costs. Technology also supports improved management efficiency and demonstrates modern business thinking, thereby promoting the trend of readiness to transition to a formal model. Based on this, the study proposes the hypothesis:

H3: The ability to use technological devices (CN) has a positive impact on the intention (YD) of household businesses to formally convert.

The location of a business reflects the level of exposure of a household business to customers and regulatory agencies. Studies by Jaramillo (2009) and Traore (2021) indicate that households businesses in highly visible locations tend to be subject to more scrutiny, thus being more likely to relocate to avoid legal risks. Based on this, the study proposes the hypothesis:

H4: Business location (DD) has a positive impact on the intention (YD) to formally convert a household business.

According to the amended Personal Income Tax Law of 2025, business households with annual revenue of VND 500 million or more must implement a self-declaration and self-payment mechanism. This regulation narrows the gap in

compliance costs between business households and enterprises, as high-revenue households will have to fulfill obligations relatively similar to enterprises, such as recording revenue, maintaining documents, and bearing the risk of tax audits. Therefore, mandatory self-declaration may increase the incentive to formalize the business model, especially when formal businesses offer more benefits such as the ability to deduct input VAT, access to capital, or enhanced business reputation. According to Decree 70/2025/ND-CP, effective from 2025, business households and individual businesses with revenue of VND 1 billion/year or more, especially in high-transaction-frequency sectors such as retail, food services, transportation, restaurants, and hotels, are required to use electronic invoices through POS systems directly connected to the tax authority. Kujtim (2020) and Giao (2020) showed that households with high revenue often have a need to expand their market, require invoices and supporting documents, or serve corporate customers, thus leading to a higher demand for formal conversion. Based on this, the study proposes the hypothesis:

H5: Annual revenue (DT) has a positive impact on the intention (YD) of household businesses to formally convert.

III. Research Methodology

3.1. Research Sample

Primary data for this study was collected through a questionnaire survey. The author designed the survey questionnaire and directly contacted users at business households in Hanoi. A convenient sampling method was used to ensure that the target group of researchers—those who have officially converted or are considering officially converting their business operations—was reached. Participation in the survey was entirely voluntary and anonymous, enhancing data reliability and encouraging cooperation from respondents.

After screening, 112 survey responses meeting the requirements were retained for further analysis. In terms of business location, 29% of households operate from home, while 71% conduct business in shops, on main streets, shopping malls, or supermarkets. Descriptive statistics show that 92% of households have registered their businesses or have tax identification numbers, reflecting a relatively high level of participation in the formal management system. Regarding revenue size, the group with revenue from 500 million to under 1 billion VND/year accounts for the largest proportion (48%), followed by the group with revenue of 1 billion VND or more (31%), while the group with revenue under 500 million VND accounts for only 21%. Approximately 66% of households use

technology or supporting equipment in their business operations, indicating a relatively widespread level of technology adoption. At the same time, 67% of household heads have a college degree or higher, significantly higher than the traditional characteristic of the household economic sector, reflecting the relatively high educational level of the study sample.

3.2. Measurement

Based on a review of domestic and international literature on factors influencing the intention of business households to formalize their operations, the study proposes five research hypotheses. To test these hypotheses, the author developed a survey tool to collect quantitative data, as presented in Table 1.

Table 1. Description of the measures in the research model

Variable name	Describe	Symbol	Source
Dependent variable			
Intention to convert (YD)	1: Official intention to convert		
	0: No intention to officially convert		
Independent variable			
Access to capital (V)	Registering my business makes it easier for me to access loans or financial assistance.	V1	Moyo (2022), Giao(2020), Sophia (2018), KUJTIM (2020)
	When I became a business, I had more opportunities to access formal funding.	V2	
	I believe that loan procedures for businesses are more transparent and easier to follow than those for household businesses.	V3	
Educational qualifications of the business owner (EQ)	1: College degree or higher 0: College degree or lower		Giao (2020), Huyen (2025), Rania (2023) Miguel (2009), Traore (2021), KUJTIM (2020)
Ability to use technological devices (CN)	1: Utilize technological devices such as computers, POS systems, and accounting software. 0: No use of technological devices		Sophia (2018), Traore (2021)
Business location (DD)	Location A 1: House 0: Other		Huyen (2025), Rania (2023), Traore (2021), KUJTIM (2020)
	Location B 1: Street frontage, shops, shopping malls, supermarkets 0: Other		
Annual revenue	0-500 million		Official document 4613/CT-CS of

(DT) 500 million - 1 billion 2025, KUJTIM (2020), Giao (2020), Thu (2022), KUJTIM (2020)
 1 billion or more

3.3. Data analysis methods

Because the dependent variable and several other variables in the research model have a binary structure, the author uses a binary logistic regression model to estimate the probability that a household business intends to formally convert. The model includes three main independent variables (access to capital, support policies, tax awareness) and control variables (business location, registration status, tax code, revenue, education level). The regression results are evaluated through: estimated coefficient (B), statistical significance (Sig.), odds ratio (Exp(B)), model fit index (-2 Log Likelihood, Cox and Snell

R², Nagelkerke R²), Hosmer–Lemeshow test, and classification table.

IV. Results

The Hosmer and Lemeshow test results show a Chi-square value of 13.698 with 8 degrees of freedom and a significance level of Sig. = 0.090. Since the Sig. value is greater than 0.05, the study does not reject the null hypothesis, indicating that there is no statistically significant difference between the observed and predicted values of the model. Thus, the binary logistic regression model is considered to fit the research data and meets the overall goodness-of-fit requirement.

Table 2. Results of logistic regression analysis

Variable	Regression coefficient	p value	Exp(B)	95% confidence interval	
Access to capital (Vtb)	0.968	0.013	2,632	1,229	5,641
Educational level (HV)	1,555	0.038	4,733	1,089	20,578
Ability to use technological devices (CN)	3,228	< 0.001	25,230	5,135	123,963
Business location (DD)	1,872	0.018	6,500	1,379	30,673
Annual revenue (0.5 to 1.0 billion VND) (DT1)	2,172	0.008	8,773	1,746	44,089
Annual revenue (from VND 1 billion or more) (DT2)	2,266	0.012	9,641	1,661	55,975

The results of the binary logistic regression are shown in Table 2. The data show that access to capital has a positive and statistically significant impact on the intention to convert from a household business to an enterprise. This variable has a positive regression coefficient ($\beta = 0.968$) and reaches a 5% significance level (Sig. = 0.013). Thus, hypothesis H1 is accepted. In addition, the value $\text{Exp}(B) = 2.632$ with a 95% confidence interval [1.229; 5.641] shows that when the perception of access to capital increases by one unit, the probability of forming the intention to convert to an enterprise increases by about 2.6 times, under the condition that other factors remain constant. This result confirms the important role of access to formal capital in the conversion decision of household businesses, therefore the research hypothesis is accepted.

The household head's educational level variable (HV) has a positive regression coefficient and reaches a 5% statistical significance level (B =

1.555; Sig. = 0.038, 95% confidence interval of $\text{Exp}(B)$ does not contain the value 1). Thus, hypothesis H2 is accepted. The $\text{Exp}(B)$ value of 4.733 indicates that household heads with higher educational levels are approximately 4.7 times more likely to form the intention to formally switch than the rest of the group.

The variable "use of technology (CN)" is encoded in binary form, where the value 1 represents businesses that use technology in their business operations. The regression results show that this is the factor with the strongest impact in the model (B = 3.228; Sig. < 0.001). Thus, hypothesis H3 is accepted. The value $\text{Exp}(B) = 25.23$ with a 95% confidence interval [5,135; 123,963] indicates that businesses using computers, POS devices, or management software are more than 25 times more likely to form a formal intention to switch than businesses that do not use technology, when other factors are kept constant.

The business location variable (DD) is coded according to the level of development of the

business space, including: (1) home-based business, (2) business in stores and shopping malls. The regression results show that the business location has a positive and statistically significant impact on the intention to perform the behavior ($B = 1.872$; $\text{Sig.} = 0.018$, 95% confidence interval of $\text{Exp}(B)$ does not contain the value 1). Thus, hypothesis H4 is accepted. The value $\text{Exp}(B) = 6.50$ indicates that households operating in stores or shopping malls are approximately 6.5 times more likely to form the intention to formally switch than the group of households operating from home. This result shows that when the business location shifts from small-scale, individual to more professional commercial spaces, the likelihood of forming the intention to perform the behavior of the research subjects increases significantly.

Annual revenue (DT) was included in the model as a categorical variable with three levels, where the lowest revenue group was used as the reference group. The Wald test results showed that revenue had a statistically significant overall influence on the intention to formally switch ($\text{Chi-square} = 8.016$; $\text{Sig.} = 0.018$). Specifically, compared to the lowest revenue group, which was below 500 million VND/year and used as a reference, these were businesses exempt from value-added tax and personal income tax, and were not required to use electronic invoices or file tax returns. Household businesses belonging to group DT (1) from 500 million - 1 billion are the group that needs to fulfill personal income tax and value-added tax obligations in the form of self-declaration. This group has a higher likelihood of forming a formal conversion intention (8.77 times higher) ($\text{Exp}(B) = 8.773$; $\text{Sig.} = 0.008$, 95% confidence interval of $\text{Exp}(B)$ does not contain the value 1). Household businesses belonging to group DT (2) from 1 billion or more are the group that is required to use electronic invoices for financial transparency. This group has a higher likelihood of forming a formal conversion intention (9.64 times higher) ($\text{Exp}(B) = 9.641$; $\text{Sig.} = 0.012$, 95% confidence interval of $\text{Exp}(B)$ does not contain the value 1). Thus, hypothesis H5 is accepted. This result shows that as revenue increases, so do financial capacity and willingness to accept compliance costs, thereby increasing the probability of forming a formal intention to switch.

V. Discussion

5.1. Theoretical Implications

Research findings confirm that access to formal credit plays a central role in shaping formalization motivations, thereby reinforcing the cost-benefit argument that business registration

decisions are strongly influenced by long-term economic benefit expectations (McKenzie & Sakho, 2007 ; de Mel et al., 2013). In the Vietnamese context, capital constraints are not only a technical barrier but also undermine growth expectations, significantly reducing conversion motivation (Tran Thi Bich, 2018). In this direction, recent studies emphasize that improving financial access and credit information transparency can act as a mechanism to activate conversion intentions, even when other institutional conditions have not been fully improved (Rania, 2023; Moyo, 2020).

Besides economic factors, the educational level of household heads plays a crucial role in transforming motivation into behavioral intention, thereby strengthening the arguments of behavioral theory. Education not only enhances cognitive capacity but also increases the perceived control over behavior and the willingness to accept institutional risk, thus increasing the probability of forming a change intention (Jaramillo, 2009; Kujtim et al., 2020; Moyo, 2020). This result contributes to clarifying the micro-mechanism through which economic and institutional conditions are internalized into motivation for action, supplementing the behavioral perspective of traditional approaches that emphasize structural factors.

Simultaneously, the level of public presence through a fixed business location shows a significant impact on registration intention, reflecting the role of the socio-institutional environment in shaping compliance norms. Operating in commercial areas increases exposure to regulators, customers, and formal partners, thereby creating pressure for legalization and raising awareness of the benefits of formalization (Traore, 2021; Kujtim et al., 2020). This finding suggests that business space is not only a physical factor but also holds institutional significance, contributing to the shift in behavior towards formalization.

In the context of digital transformation, the level of technology adoption continues to emerge as a crucial driving factor. The application of technology helps reduce information asymmetry, standardize management processes, enhance accounting capabilities, and increase the ability to meet compliance requirements, thereby increasing the probability of formalization (Mukorera, 2018; Traore, 2021). This suggests that digital transformation not only means improving operational efficiency but also acts as an “institutional catalyst,” supporting the integration of household businesses into the formal sector.

Finally, annual revenue demonstrates a foundational role in activating the transformation momentum, consistent with the argument of scale thresholds where only households reaching a certain revenue level have sufficient financial capacity and willingness to accept compliance costs to formalize (de Mel et al., 2013). This finding reinforces the view that formalization is not a universal option, but rather the result of a process of resource accumulation, improved governance capacity, and the formation of growth expectations, especially in the context of a transitioning institutional environment like Vietnam (Ha Nam Khanh Giao et al., 2020).

Based on this, the study contributes to the existing theoretical framework in two aspects: Firstly, empirical results show that the intention to change among household businesses is influenced not only by revenue but also strongly by non-financial factors such as the level of technology use, the educational level of the household head, and the level of presence of the business location. This reinforces the argument that formalization should be considered as a multi-dimensional behavioral decision, rather than just a reaction to tax obligations. Secondly, in the context of Vietnam's ongoing tax system reform towards abolishing lump-sum taxes and expanding declarations, this study contributes to extending the application of formalization theories to the context of institutional transition, where policies not only create pressure for compliance but can also play a role in guiding behavior if appropriately designed.

5.2. Policy Implications

Based on the empirical results, the study suggests several key policy implications to promote the formalization of household businesses in a sustainable and inclusive manner. First, improving access to capital should be considered a central driver for the decision to formalize. The city can play a coordinating role, connecting household businesses with credit institutions through preferential credit programs, loan guarantees, or funds supporting small and medium-sized enterprises. Linking the formalization process with specific financial benefits will enhance the attractiveness and feasibility of the decision to formalize, especially for households with growth potential.

Secondly, promoting the digitalization of management and business operations should be considered a key policy pillar in the formalization process in major cities. International experience shows that tax and accounting digitalization policies are most effective in economic centers,

where technological readiness and digital infrastructure are relatively well-developed. Accordingly, management agencies need to strengthen technical support, consulting, and practical training on electronic invoices, declaration software, and digital management platforms, especially for businesses operating in the trade and service sectors, in order to reduce compliance costs and improve governance capacity.

Third, formalization policies need to be closely integrated with training and advisory programs aimed at enhancing the awareness and management skills of household heads. Collaborating with professional associations, training organizations, and banks to implement short-term training courses on governance, accounting, and finance will not only improve human capital but also help reduce psychological and cognitive barriers – key factors influencing the intention to transition.

Fourth, policies need to be designed to categorize and prioritize based on operational characteristics, especially business location. Households operating in commercial areas, business streets, or service centers have a high level of public presence and face greater compliance pressure, and therefore can be prioritized in pilot programs for transformation, digitalization support, and access to capital. This tiered approach not only enhances the efficiency of policy resource allocation but also contributes to a ripple effect, promoting widespread formalization.

5.3. Limitations and suggestions for future research directions

Despite the achievements, this study still has certain limitations that need to be considered objectively. Firstly, due to time and resource constraints, the sample size of the survey is relatively modest. This may affect the generalizability of the research results, especially when applied to groups of household businesses with diverse characteristics in terms of industry, scale, and operating conditions. Future studies could expand the sample size and increase the representativeness by geographical area and business sector to improve the reliability of the conclusions drawn. Secondly, the revenue variable in the study is currently classified at a relatively general level. Although the results show that revenue has a significant impact on the intention to switch, the current classification does not fully reflect the behavioral differences between different levels of household business size. Therefore, further studies could break down revenue into more detailed thresholds based on the Ministry of

Finance's tax regulations, or combine revenue with additional indicators such as the number of employees, capital investment, or growth rate to further clarify the impact of scale on formalization decisions. Thirdly, the research data is primarily based on self-reported surveys of household business owners, and therefore may be affected by perceptual biases and social response biases. Some household businesses may inaccurately assess their own revenue, compliance levels, or conversion intentions. In the future, combining survey data with administrative data, in-depth interviews, or case studies could help increase the objectivity and reliability of the research results.

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