



International hidden entrepreneurs: Concealed partnerships in new venture formation in an emerging markets context

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ABSTRACT

This study examines the emergence of international hidden entrepreneurs (IHEs) in the Kingdom of Saudi Arabia through an institutional theory lens. An international hidden entrepreneur arises when local regulations impose high costs on an international entrepreneur operating as the legal head of an enterprise, therefore giving rise to a concealed partnership with a local entrepreneur to serve as the official managing director. The IHEs in our study typically originate from emerging market nations. Drawing on qualitative data from 44 participants, we examine the complexities of (1) mechanisms of IHE practices, (2) catalysts to the rise of IHEs, and (3) ethical and economic impacts of the presence of IHEs and their implications for the local economy. We establish the existence of IHEs as a still underexplored phenomenon and the advantages and disadvantages of the system in consonance with the cognitive, regulative, and normative pillars of institutional theory. Our findings reveal that IHEs arise as a response to stringent regulatory barriers, socio-cultural norms, and cognitive skill gaps. This study contributes to institutional theory by demonstrating how these pillars intersect in the Saudi context, offering novel insights into informal entrepreneurship and its challenges to Saudi Vision 2030.

Introduction

Surviving complex bureaucratic regulations is a crucial factor shaping the rise of international hidden entrepreneurs (IHEs) in an emerging markets setting. This clandestine form of new venture formation thrives amid institutional complexities, operating discreetly yet effectively to overcome onerous local regulations (Al-Mataani et al., 2017). When these regulations impose substantial costs on international entrepreneurs assuming legal leadership roles, a concealed partnership with a local entrepreneur can occur with the local entrepreneur as the official head of the business. Institutional theory is used as a foundational lens for this study to investigate the new phenomenon of international hidden entrepreneurship. The three pillars of institutional theory (cognitive, normative, and regulative) are highly relevant to the Saudi context, where strict regulatory frameworks combine with cultural expectations and entrepreneurial skill deficits to drive a specific

form of hidden entrepreneurship. Neoliberalism in Saudi Arabia and its Vision 2030 initiatives mark the ways in which the country is moving toward an economic diversification agenda and represent aspirations; however, these policies also have the effect of marginalizing foreign workers and enabling informal entrepreneurship. This paper examines how these macro (state policies), meso (local business ecosystem), and micro (individual entrepreneurial behaviors) factors uniquely influence the emergence of IHEs in Saudi Arabia, offering a novel contribution to institutional theory. Additionally, this study addresses how a dearth of start-up skills in the local citizenry both hinders native entrepreneurial development and fosters the emergence of IHEs.

In Saudi Arabia, according to the Ministry of Commerce and Industry (MOCI), the entity overseeing business and industry regulations, IHEs manage over two thirds of micro, small, and medium-sized enterprises (MSMEs) (MOCI, 2015). Despite this manifestation of informal economy, the Saudi government aspires to increase the contribution of

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MSMEs to GDP to 35 % by 2030 from 20 % in 2016 (Saudi Vision 2030, 2016). While IHEs provide invaluable products and services along with business expertise, they can also, according to the MOCI (2015), obstruct the ethical development of jobs and work for Saudi citizens and migrant workers alike (Maloney, 2004; Perry et al., 2007). The rigid regulatory environment, combined with cultural attitudes toward migrant labor (Park, 2025), establishes a fertile ground for concealed entrepreneurial partnerships. This intersection of policy and practice underscores the uniqueness of the Saudi Arabian context, offering a lens through which to examine the interplay between local norms and global migration trends. However, within Saudi Arabia, across nations, and within global entrepreneurship, very little has been extensively studied about IHEs embedded in a particular confluence of regulatory, ethical, and migration circumstances.

IHEs, which are a subset of the broader category of informal entrepreneurs, primarily hail from emerging market nations (Radwan & AlShammari, 2020), leveraging deeper entrepreneurial experience from the country of origin in the country of destination. Drawing on institutional theory, and a novel illustration- and interview-based qualitative exploration of IHEs and their Saudi counterparts, our research explores the catalysts, ethics, mechanisms, and outcomes associated with IHEs (Omar, 2019). Our study illuminates the advantages and disadvantages inherent in the IHE system, aligning with the cognitive, regulative, and normative pillars of institutional theory (Meyer & Rowan, 1977) in an ethical sense.

While policy makers frequently establish new rules and regulations with the aim of strengthening the development of MSMEs, thereby contributing to national economic growth (Alkharafi, 2024; Alkharafi et al., 2024; Alrashidi et al., 2023; Dennis, 2011; Park & Wallace, 2022; Williams, 2017), such new rules and regulations also potentially increase hidden business practices (Tok, 2021). Given the current bidirectional relationship between IHEs and their Saudi partners juxtaposed against the Saudi Arabia 2030 economic vision (Schneider, 2021), it is worthwhile to achieve a better empirical understanding of this partnership phenomenon to guide decision making to achieve desired economic goals (Al Naimi, 2022), while avoiding the drawbacks associated with disrupting a remunerative yet concealed system. Given the present dearth of research on IHEs, we aim to comprehensively understand (1) the mechanisms involved in IHE practices, (2) factors promoting IHEs existence, and (3) the practical and ethical impact of IHEs on the local Saudi market and economy, with implications for other countries and regions of the world. We draw on the pillars of institutional theory to examine the national regulatory context and the IHE landscape of opportunity.

This study underscores the nuanced influences of IHEs on the Saudi economy. While their presence contributes to the entrepreneurial ecosystem by infusing novel business skills and ideas into the market, it also introduces ethical, strategic, and financial challenges such as remittance transfers out of the local economy and distortions in entrepreneurship policies. Our research illuminates underexplored aspects of IHEs and provides insights into their implications for emerging market contexts (Rutkowski & Koettl, 2020), not only in Saudi Arabia but also in other global locations. We provide a deeper understanding of the IHE dynamics at play, offering valuable considerations for policymakers, researchers, and practitioners in navigating the intricate interplay of emerging market bureaucracy, local entrepreneurship interests, and international entrepreneurship aspirations.

While the Saudi Vision 2030 aims to enhance the formal small and medium-sized enterprise (SME) sector and reduce unemployment among Saudi nationals, this study reveals that IHEs disrupt these objectives by dominating informal markets, often bypassing formal regulations and creating an ethical conundrum. These dynamics necessitate a critical evaluation of how hidden entrepreneurship challenges the policy goals outlined in the Saudi Vision 2030, particularly in achieving equitable economic growth and fostering local entrepreneurial talent.

Literature review and theoretical framework

Hidden entrepreneurship from an institutional perspective

This section explores the concept of hidden entrepreneurship within the broader context of informal and immigrant entrepreneurship. Hidden entrepreneurship operates within the framework of concealed partnerships while circumventing regulatory barriers (Al-Mataani et al., 2017). This section situates hidden entrepreneurship within institutional theory, bridging gaps in understanding the mechanisms and implications of such practices.

Institutional theory has been widely applied in the entrepreneurship literature since the last century (Bruton et al., 2010) and provides rich insights into the origins of organizations (Zucker, 1983) and economic performance (ElMelegy et al., 2022; North, 1990). It elaborates how underlying rules, beliefs, values, and norms in both organizational structure and individual behavior reflect the social, cultural, and political forces of the organizational experience (AlShamali & AlMutairi, 2023; Selznick, 1996). In the framework of institutional theory, two principles merit deeper consideration. The first is the claim that the institutional environment is influenced by the society surrounding the organization. Society and institutional environment shape individual behavior, and individuals in turn influence the institutional environment and society. Foundationally, the institutional environment is a social construction, reflecting and enabling human behaviors (Albuloushi & Algharaballi, 2014; DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Second, institutional theory presupposes organizations to be open systems, meaning that both the external environment and mobile actors impact organizational structures and activities (Scott, 2014).

Institutional theory encompasses three pillars: cognitive, regulative, and normative. Each provides insight into a specific aspect of the IHE-Saudi entrepreneurship interaction. The cognitive dimension addresses the individual knowledge, skills, and perceptions shaping behavior (Busenitz et al., 2000), such as the more experienced skillsets of many of the IHEs in comparison to the evolving entrepreneurial talent of the citizenry in Saudi Arabia. The normative dimension encompasses the shared values and norms shaping the entrepreneurial context (Webb et al., 2013), such as a broadly shared emerging markets heritage of both IHEs and Saudi citizens, alongside an interest for personal combined with economic advancement. Finally, the regulative aspect includes public policies, rules, and regulations (Raynard et al., 2015), ostensibly precluding the existence of IHEs while in fact nurturing their activity and collaborations. The three pillars of institutional theory collectively enable a more comprehensive understanding of the IHE phenomenon.

Studies have found that IHE practices are more prevalent among immigrants from developing countries (De Luca & Ambrosini, 2019; Drori et al., 2009; Webb et al., 2014). Dheer (2018) determined immigrant entrepreneurship as the process whereby immigrants identify, create, and exploit economic opportunities to start new ventures in their destination nations. IHEs are mobile and travel to different countries to pursue business opportunities due to different social and economic reasons in the new location (Al-Mataani et al., 2017). The unique features of both the individual and the institutional context shape IHE activity, (Deakins & Freel, 2009). Bohn and Owens (2012) and Bosh and Farre (2014) identified a positive relationship between the level of immigration in a country and the size of the informal economy.

Immigrant entrepreneurs have been found to benefit from ethnicity and country of origin to gain access to various markets (Aliaga-Isla & Rialp, 2013; Dheer, 2018; Lens, 2023) and to support each other during different phases of business development in the destination country (Kim & Hurh, 1985). The latter findings align with Bird (2016), who found that family financial support influenced the decisions of immigrant entrepreneurs to continue their entrepreneurial ventures. Beyond the benefits of family, inter-ethnic, and community connections contributed to enterprises founded by emerging-market migrant

entrepreneurs, originally serving enclave markets, profitably expanding into diverse markets in Italy (Arrighetti et al., 2014). Initially ethnic-based immigrant entrepreneurship has effectively changed local entrepreneurship landscapes through the forging of relationships between entrepreneurs regardless of ethnicity, as also found in Sweden (Tavassoli & Trippl, 2019). In Saudia Arabia, with 41 % of the population consisting of migrants, it is compelling to further examine the background and operating mechanisms of IHEs in moving beyond the migrant community into partnerships, albeit clandestine ones, with Saudi locals.

The perceptual capabilities of entrepreneurs, as explained by the cognitive pillar of institutional theory, further shape their entrepreneurial opportunities (Busenitz et al., 2000). Hereditary and local culture (Zucker, 1977) affect individual perceptions of business opportunities (Stuetzer et al., 2014). When entrepreneurs gain the appropriate skills and knowledge, they become more confident to further develop their entrepreneurship activities (Arenius & Minniti, 2005). While IHEs practice informally, their practices are still entrepreneurial and influenced by cognitive factors (Scott, 2014).

In relation to the normative explanation of organizational existence, previous research has shown that in countries with a high dissatisfaction toward government rules, people tend to disobey the legal form of work and instead elect to engage in informal work practices (Schneider et al., 2010). Nevertheless, there are multiple protection benefits when entrepreneurship activities can be considered both legally correct and acceptable within the social framework (Kayed & Hassan, 2010). In the Cooperation Council for the Arab States of the Gulf, this legal and social correctness standard implies that entrepreneurial ventures should be *sharia* compliant, and social benefits can ensue for IHEs from *sharia* compliance even when a legal status for the business is not yet confirmed (Al-Suhaibani & Naifar, 2014).

Regulative factors also influence hidden entrepreneurship. For example, the size of the informal economy (hidden entrepreneurship) is positively associated with the level of labor market restrictions, taxation, and inefficient government institutions (Loayza, 1996). Furthermore, high levels of bureaucracy, regulation, and corruption can drive entrepreneurs into the shadow or informal economy (Friedman et al., 2000). Burdensome regulations and complex webs of bureaucracy additionally contribute to participation in the informal economy (Schneider & Enste, 2000). Informal business practices share commonalities such as not paying the cost of operating in the market (e.g., taxes, levies for permits, and payment for license renewal; Djankov et al., 2003). The institutional (Kabir et al., 2023) and ethical (Underhill et al., 2018) factors influencing IHEs in the Saudi market need to be more fully explored.

Informal businesses have a strong interest in reducing the costs of operation, and some informal entrepreneurship practices meet this objective, albeit at ethical cost (Mughal et al., 2020). IHEs can avoid tax payments, ownership expenses, and worker regulations, thereby creating cost advantages for their businesses in relation to businesses in the formal economy (Neuwirth, 2011; Nichter & Goldmark, 2009; Webb et al., 2014). Due to lower operational expenses, informal businesses can often compete effectively against more formal businesses, but the informal practices have been considered exploitative of labor, for instance in the form of lower salaries and an absence of employee protections (Losby et al., 2002; Williams & Martinez, 2014). Further studies have found the informal economy to be correlated not only with low salaries but also with slower growth in the formal economy (Dell'Anno, 2007; Gërkhani, 2004; La Porta & Shleifer, 2014; Schneider, 2014; Schneider et al., 2010; Schneider & Enste, 2000; Williams, 2017).

The advantages accruing to informal entrepreneurship can undercut positive outcomes for formal entrepreneurs (Andrews et al., 2011; Hudson et al., 2012) and hinder governmental inflows, thus decreasing national economic strength and the availability of employment in the formal sector, while also increasing the potential for abuse of the now essential migrant entrepreneurs (Shepherd et al., 2022). What begins as

an opportunity for migrant entrepreneurs allied with Saudi partners becomes an ethical conundrum with concerns potentially disadvantaging all involved: the hidden entrepreneurs (deprived of higher salaries, protections, and formal advancement), their local partners (deprived of directly acquiring entrepreneurial experience and expertise), and the national economy (deprived of the revenue growth attendant on business formalization fees coupled with the ultimately more limited growth potential of smaller hidden businesses without a recognized existence for greater expansion).

International hidden entrepreneurs (IHEs): the Saudi context

Saudi Arabia has a 2020 population exceeding 34 million, consisting of around 20 million citizens and 14 million international residents. It is a popular destination for migrant workers from many emerging markets—for instance, India, Bangladesh, Pakistan, Philippines, Sri Lanka, and more—as well as some from advanced economies. Although migrant labor crucially contributes to national economic development, unanticipated costs such as the escalation of the informal or shadow economy and hidden entrepreneurship have arisen.

While IHEs are widespread in Saudi Arabia, they are primarily in micro firms (MOCI, 2015). IHE start-ups occur in various sectors, including wholesale and retail trade, construction, car repair, transport, restaurants, tailoring, salon services, and coffee shops. The number of IHEs in Saudi Arabia markedly increased as a subcategory of MSMEs from 2015 to 2019 (Table 1). In 2015, there were 1.82M MSME firms in Saudi Arabia operated by IHEs and Saudi partners, which increased to 2.65M such firms in 2019, a 46 % rise (Table 1).

Little knowledge to date has been available on factors contributing to the rise of IHEs in Saudi Arabia. The standards of goods desired in the country are determined by cultural norms and moral values plus other measures of acceptability. However, given the high proportion of migrant workers drawing from different national and ethnic backgrounds in Saudi Arabia, we argue that the norms and beliefs influencing the presence and practice of IHEs are probably identity group-specific and national context-specific. The Saudi partners and IHEs operate under high legal risk; if caught, the former could face prosecution and be held accountable for any liabilities of the IHE, and the IHEs face diplomatic consequences such as fine, imprisonment, or deportation (MOCI, 2019). On the one hand, we could anticipate these regulative factors to thwart the existence of IHEs. On the other hand, we could argue that other regulative factors in Saudi Arabia—the most notable being the longstanding governmental over-regulation of international entrepreneurs as well as newer regulations excluding migrants from entering certain markets—promote the existence of IHEs (Shleifer, 2010).

Nevertheless, while consistently accurate current figures have not been available, IHEs have a nontrivial economic impact. Earlier reports indicated the revenues generated by IHEs in 2013 to be around \$63 billion (MOCI, 2015). Even two decades ago, Schneider and Enste

Table 1
Distribution of firms involving international hidden entrepreneurs (IHEs) by micro, small or medium enterprise (MSME) firm size in Saudi Arabia in 2015 and 2019.

Firm size	Number of MSMEs involving IHEs in 2015	IHE Firms as % of Total Firms in Each Category	Number of MSMEs involving IHEs in 2019 (increase of 46% compared to 2015)
Micro business	1550,000	85.3 %	2263,000
Small business	230,000	12.7 %	335,800
Medium business	37,000	2.0 %	54,020
Total	1817,000	100 %	2652,820

Caption: This table is the property of the authors.

(2000) noted that the informal economy in Saudi Arabia contributed \$1.75 billion to the country's GDP. From a business, conceptual, ethical, economic, entrepreneurial, and human-interest standpoint, IHEs in Saudi Arabia merit further research investigation.

Methods and analysis

This study conducted in Saudi Arabia in 2019 employs a qualitative approach involving interviews with 15 IHEs, 15 Saudi partners, and 10 local entrepreneurs—all in different business sectors—and four officials from the MOCI. In this study, a local entrepreneur is a Saudi citizen operating *without* an IHE collaborator, while a Saudi partner refers to a citizen working in collaboration with an IHE. Table 2 summarizes the demographics of participants in the study. We aimed to explore the bidirectional hidden entrepreneurship relationship from the perspectives of both the IHEs and the Saudi partners, as two key involved parties. We included MOCI officials in the interview sample due to the crucial role played by the ministry in monitoring and regulating business activity in Saudi Arabia. IHEs were non-Saudi. The Saudi partners, local entrepreneurs, and MOCI officials were all Saudi citizens, a phrase used

Table 2

Entrepreneurial specializations and interview durations of participants in the study: International hidden entrepreneurs (IHE), Saudi partners (SP), local entrepreneurs (LocEnt), and ministry of commerce and industry (MOCI).

Participant category code	Company type	Mode of interview	Duration
IHE-01	Laundry and ironing	Face-to-face	40 min
IHE-02	Car repair	Face-to-face	43 min
IHE-03	Beauty salon	Face-to-face	35 min
IHE-04	Tailoring and textiles	Face-to-face	43 min
IHE-05	Carpet shop	Face-to-face	40 min
IHE-06	Hospital instruments	Face-to-face	45 min
IHE-07	Wedding clothing	Face-to-face	90 min
IHE-08	Dates	Face-to-face	45 min
IHE-09	Wood repairs	Face-to-face	40 min
IHE-10	Grocery shop	Face-to-face	54 min
IHE-11	Fast food restaurant	Face-to-face	60 min
IHE-12	Barber shop	Face-to-face	60 min
IHE-13	Electrician	Face-to-face	60 min
IHE-14	Mobile phone business	Face-to-face	50 min
IHE-15	House painting	Face-to-face	55 min
SP-01	Construction	Face-to-face	90 min
SP-02	Workshop for diesel trucks	Face-to-face	27 min
SP-03	Clothing shop	Face-to-face	25 min
SP-04	Grocery shop	Face-to-face	30 min
SP-05	Furniture	Face-to-face	45 min
SP-06	Construction	Face-to-face	90 min
SP-07	Importing electronics	Face-to-face	39min
SP-08	Construction	Face-to-face	90 min
SP-09	Workshop for diesel trucks	Face-to-face	27 min
SP-10	Traditional Saudi men's clothing	Face-to-face	45 min
SP-11	Construction	Face-to-face	90 min
SP-12	Fruit and vegetable shop	Face-to-face	57 min
SP-13	Breakfast restaurant	Face-to-face	55 min
SP-14	Herbal life	Face-to-face	70 min
SP-15	Car repair	Face-to-face	60 min
LocalEnt-01	Restaurants	Face-to-face	55 min
LocalEnt-02	Coffee shop	Face-to-face	50 min
LocalEnt-03	Car repair	Face-to-face	115 min
LocalEnt-04	Perfume shop	Face-to-face	75 min
LocalEnt-05	Butcher	Face-to-face	45 min
LocalEnt-06	3D printing	Face-to-face	25 min
LocalEnt-07	Grocery shop	Face-to-face	45 min
LocalEnt-08	Supermarket	Face-to-face	65 min
LocalEnt-09	Gold shop	Face-to-face	60 min
LocalEnt-10	Furniture	Face-to-face	70 min
MOCI-01	Public official	Face-to-face	180 min
MOCI-02	Public official	Face-to-face	120 min
MOCI-03	Public official	Face-to-face	90 min
MOCI-04	Public official	Face-to-face	97 min

Caption: This table is the property of the authors.

interchangeably with Saudi nationals. IHEs and Saudi partners were accessed using snowball sampling. For approaching Saudi local entrepreneurs and officials of the Saudi MOC, we used a purposive sampling strategy. See Appendix A for the objectives guiding the interviews.

Given our exploratory study and the sensitivity of the information requested, as well as multiple native languages of IHEs (Arabic is the official language of Saudi Arabia and English is widespread as a working language throughout the country), IHEs and Saudi partners, both deeply enmeshed in the IHE phenomenon, were interviewed using a projective drawing technique. Dichter (1960) explained projective techniques such as non-directive interviews where participants express their thoughts, feelings, and fears illustratively in ways that might not be possible in direct verbal or written form. Stern (2004) determined that projective techniques can elicit deep-rooted motivations as well as depictions of current behavior. All human cultures, past and present, use drawing, which predates written language by many thousands of years. Thus, drawings provide unique information from the research participant, and rich discussions can be prompted when participants have an opportunity to recount events initially without relying on conversation. In addition, emotions and emotional narrative can be accessed via drawings and, as a result, this approach facilitates the exploration of sensitive and challenging topics. Moreover, drawing enables researchers to address the power dynamics between researcher and participant, which cannot be as easily surfaced with other methods. The most common approach, used in this study, involves asking participants to draw during the interview. The drawing technique uncovers aspects of social, daily, and lived experiences that are otherwise difficult to access or express. See Appendix B for questions asked of participants while drawing, in narrative, or semi-structured format. Triangulation across participants enhanced the credibility of the data collected (Shenton, 2004).

All spoken interviews occurred in either English, Arabic, or a combination, according to the request of the interview participant. When an interview included Arabic, it was translated to English and then re-translated back into Arabic to ensure that meanings were not lost. In addition, during the interviews, careful notes were also taken to ensure that all the original meanings were preserved in the translated text as expected. Data collection and interviewing continued until saturation was achieved as evidenced through multiple instances of repetition.

Interviews were transcribed verbatim before being subject to thematic analysis, an approach for identifying, analyzing, and reporting patterns (themes) within data (Boyatzis, 1998). This approach has been suggested to be optimal for analyzing data in relation to individual experiences (Nowell, Norris, White, & Moules, 2017). Thematic analysis was conducted in NVivo following the steps proposed by Braun and Clarke (2006) where participants' statements were grouped into codes, then codes were grouped into subthemes, and then subthemes were relevantly grouped into themes. Themes emerging during the analysis (in an inductive manner) then guided further interviews (in a deductive manner). Drawing on both inductive and deductive processes supported a more thorough analysis and minimized risks of inadvertent bias that could occur through the use of one analytic approach only.

Findings

Various themes emerged from our analysis: the operation of IHEs in the Saudi market, factors facilitating the existence of IHEs, and the impact and ethical challenges of IHEs on the Saudi local market and economy. We explored these themes for both IHEs (Table 3) and their complementary Saudi partners (Table 4).

In addition, Fig. 1 illustrates the multiple interrelationships reflecting the bidirectional interaction between IHEs and their Saudi partners, as well as effects of IHEs on Saudi citizenry entrepreneurship development and the further growth of the Saudi economy.

Table 3

Themes and illustrations of factors contributing to IHEs existence based on interviewing IHEs.

Institutional theory pillars	Themes	Codes	Illustrative quotes
Cognitive factors	Skillful individuals who have access to the international market	• Experienced	“Our business is very successful... very experienced... good quality and low cost” (IHE-03).
		• Skillful	“I have very good skills in electronics. I have been in this business for the last 20 years” (IHE-13).
		• Knowledgeable	“I used to do the same business back in my home and I transfer all the knowledge I have to this market” (IHE-13).
		• Access to resources in the international market	“We are dealing with many sources outside of the country. We are dealing with people from India, China, Dubai... all around the world even Europe” (IHE-02).
Regulative factors	Hidden practices	• High competition	“We are competing with other businesses, however, our competition is mainly between us as IHEs, as I have not seen Saudis work in this type of business” (IHE-03).
		• Violating ownership regulations	“This is the only way to practice by violating ownership registration and register the business under my Saudi partners name and I [IHE] operate in the business” (IHE-04).
		• Violating work contracts	“I [IHE] came to Saudi Arabia to work as a tailor, then started to work hiddenly as an electrician having my own business” (IHE-04).
Regulative factors	Expansion of business	• IHEs concealed behind the Saudi partner names (known as the <i>kafala</i> system)	“I have been running my [IHE] business under the name of my [kafala system] Saudi partner” (IHE-12).
		• Widespread IHEs	“I [IHE] have five micro shops” (IHE-15).

Table 3 (continued)

Institutional theory pillars	Themes	Codes	Illustrative quotes
Regulative factors	Complex rules and regulations	• Bringing and hiring relatives as workers	“All of my workers are not Saudi citizens...all of them are from Yemen. I only hire my own family to avoid any risk” (IHE-07).
		• Complex rules and regulations for formal entrepreneurial venture listing in Saudi	“When it comes to the rules and regulations, they are very complicated. So, it is much easier to practice business hiddenly” (Hes-response).
Regulative factors	High bureaucracy	• High bureaucracy	“You have to go from one ministry to another, just to get paperwork and signatures done. It takes a lifetime” (Hes-response).
Normative factors	Mechanisms of practice	• Agreement with the Saudi partner	“A Saudi partner allows me to use his identity so I [IHE] can hide from the authorities as long as he receives a fixed amount of money” (IHE-05).
		• Social network	“Social networks are very important to have for a successful business that operates hiddenly.” (IHE-11)
		• Mutual benefit between IHE and Saudi partner	“My relationship with my Saudi partner is based on mutual benefit. I pay him monthly and he allows me to practice under his name.” (IHE-11)

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IHE-related cognitive factors

IHEs possess capabilities and contacts valuable in the Saudi setting. IHEs from various countries are generally skilled laborers and perform mainly manual work including laundry and ironing, car repair, salon services, tailoring and textiles, carpet making, wedding clothing, date factories, wood working, grocery shops, quick service restaurants, coffee shops, barber shops, and electrician, plumber, and house painting services. Their work occurs mainly in MSMEs. As stated by an IHE: “*I am an international who came to Saudi 15 years ago to run a business under my partner's name*” (IHE-11). Another participant stated: “*I learned good skills back home, and all the other workers I have are very skillful*” (IHE-09). IHEs have been working in their fields for many years, and although the majority of IHEs are not academically qualified, they are highly experienced. They acquired competencies in their home country and have transferred them to the Saudi Arabian market. Their businesses thrive in their new location, as mentioned by this IHE: “*Our beauty salons are very successful with many services at good quality and low cost*” (IHE-03). Another IHE stated “*We can produce almost any carpet design with great*

Table 4

Themes and illustrations of factors contributing to IHEs existence based on interviewing Saudi partners.

Sub-Themes	Themes	Responses from IHEs and Saudi partners
Cognitive factors	Inadequate entrepreneurial skills and knowledge	"I allow IHEs to run the business because they have a better business mindset than I do" (Saudi partner-response). *“I don’t have the experience or skills, and I don’t know how the market works (Saudi partner-response). *Most of the people working in truck repair are IHEs” (Saudi partner-response) *“There should be workshops and training provided to support this market, and they should be available to everyone. Lack of technical training support and, lack of information about available training courses have contributed to the possibility for IHEs to practice under my name” (Saudi partner-response).
	Lack of technical training and workshops for Saudi entrepreneurs	
Normative factors	Trust related issues between IHEs and Saudi partners and between Saudi partners and customers	*“I fuel his [Saudi partner] pocket and he [Saudi partner] covers my [IHE] business in return” (IHE-response). *“If [Saudi] customers come to us and see Saudi workers in the workshops, they will be surprised and stop dealing with us” (Saudi partner-response). *“If the business or IHE gets caught, then the trouble can be resolved via friends, which we call wasta” (Saudi partner-response).
	Wasta	

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skill, and to be successful in the Saudi market you need to be skillful and experienced” (IHE-05). Yet another IHE noted: “People working in the industrial city typically have around 25 years of experience with their creative skills” (IHE-02).

In addition, IHEs have brought many new businesses and materials to the Saudi market. For instance, Egyptian international workers transferred wooden furniture and various types of woods from the Egyptian market. As mentioned by one of the IHEs, Egyptian cotton is another significant international good introduced to the Saudi market: “I am the designer, producer, seller, and the one who brings some of the rare cotton from overseas to Saudi Arabia” (IHE-09). IHEs who engaged in businesses familiar to them when moving to Saudi Arabia could continue to access resources internationally. Their skills, access to international suppliers, and provision of goods and services at flexible prices have made IHEs some of the biggest competitors in various sectors in the Saudi market. As noted by an IHE: “We are dealing with many sources outside of the country. We are dealing with people from India, from China, from Dubai, and all around the world” (IHE-01). Another IHE explained: “I have been working in furniture repair and wood since I was back home. This is our family business” (IHE-09).

The knowledge and supplies that IHEs have transferred into the Saudi market have helped some of the local entrepreneurs and Saudi partners to improve their expertise. As stated by an IHE: “We have good knowledge and skills. We bring new materials that are not available in the Saudi market, and we have more experience than the Saudi local entrepreneurs” (IHE-08). The same participant emphasized that his line of business is a new business in the Saudi market, and the only way to learn is from an IHE, because “our skills and experience have allowed us to be more productive” (IHE-08). IHEs have also built strong relationships within Saudi society and have become excellent competitors by providing high-quality products and exceptional services at inexpensive prices. Hence, our study highlights that IHEs are skillful individuals with valuable access to international markets.

IHE-related regulative factors

Hidden practices: IHEs run their businesses in the Saudi market under the name of their Saudi partners. This practice abuses the business registration system. Those running the business, the IHEs, do not pay the

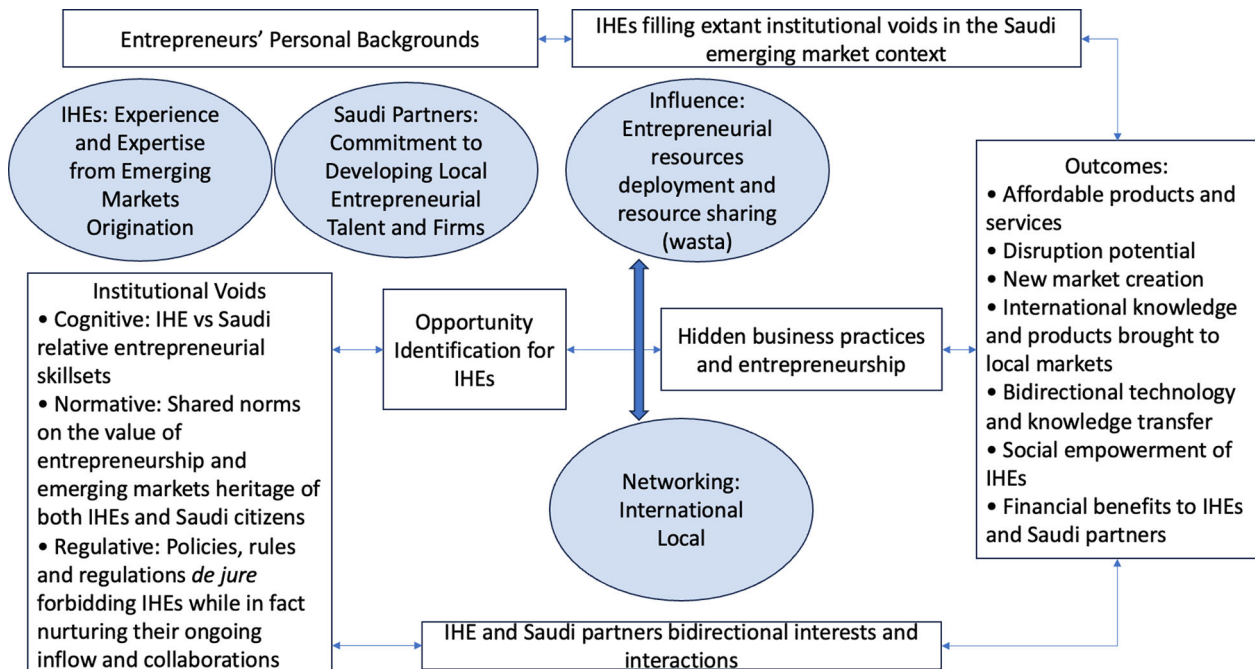


Fig. 1. Relationships among factors contributing to the existence of IHEs and the impact on the Saudi market and economy.

government regulations costs; meanwhile, those paying the government fees, the Saudi partners, are not in fact running the business. An IHE stated the following regarding the ownership regulations:

“Everything you see here is under my sponsor’s name, but I am the operator of this business. My Saudi partner owns everything because I as an [IHE] can’t open a business under my own name. Everything in this shop belongs to my sponsor on paper, but I paid for everything here” (IHE-01).

Another IHE explained: “*The only way to operate a business here is by avoiding the ownership registration and registering the business under the name of my Saudi partner*” (IHE-04). IHEs and their Saudi partners engage in hidden practices in violation of the international work contracts. All IHEs entered Saudi Arabia with contracts for categories of jobs, generally as laborers, while in reality what they do differs greatly from their contracts. Switching from labor to entrepreneurship, either in the same field of work or a completely different one, without the necessary (expensive) amendments to the work contract is a frequently occurring violation of the contract. An example includes “*I came to Saudi Arabia to work as a tailor, then started to work hiddenly as an electrician having my own business*” (IHE-04).

Such violations of work contracts undermine both market policy and foreign investment laws, maintaining the legal-ethical conundrum of the IHE and Saudi partner, benefiting both parties financially in the short-term but to the longer-term detriment of human capital growth and officially recognized business growth in the national economy. An IHE explained: “*I came on a laborer visa and started working as an entrepreneur using the laborer visa, which reduced the business ownership fees. I was advised to do this by a friend before I arrived in Jeddah*” (IHE-15). Another IHE explained that “*To reduce the cost of the government fees, I came on a cleaner visa and now am running a beauty salon*” (IHE-03). In a typical scenario, the IHE enters Saudi Arabia using an inappropriate visa and work contract, enabling both the IHE and the collaborating Saudi partner to avoid business charges and legal requirements.

Another important aspect in the existence of IHEs is that under the Saudi *kafala* sponsorship system (Robinson, 2021), foreign workers possess visas and have legal residence status in Saudi Arabia. In the *kafala* system, international workers are employees of a company, the government, or a family. There are essentially two levels of visas: one for laborers, and another for business employees and professionals. Additionally, running a business—or starting an entrepreneurial venture—incurs separate charges. Saudi partners sponsor internationals to enter the country under a deliberately incorrect form of visa, typically the less expensive laborer visa. The Saudi sponsor should then provide the appropriate laborer job for the international, but exploitation occurs with a Saudi sponsor providing the legal name for an IHE-run business and then obtaining a fixed monetary payment from the IHE. While some soon-to-be IHEs were unaware of the potential for abuse, other potential IHEs knew about and desired this pathway. The IHE has operational control and can also extract profits from the business but must continue payment to the Saudi sponsor. Some sponsors are less interested in larger entrepreneurial rewards than in simply receiving a steady monetary inflow from an international worker being compelled to act as a quasi-entrepreneurial, quasi-independent agent. An unaware IHE described:

When I came here (to Saudi Arabia), I met my sponsor, and he told me to find a job and work. He forced me to pay him [the equivalent of] \$80 monthly [to maintain my visa], so I was forced to find a job. Later I discovered that many workers here are in the same situation” (IHE-04).

However, another IHE provided a more self-directed perspective that “*I have been running my own business under my Saudi sponsor’s name*” (IHE-12). IHEs have differing degrees of foreknowledge and commitment to a bilateral complicity in an unethical entrepreneurial ecosystem. The *kafala* sponsorship has been criticized for its cruelty to international laborers and its contribution to the spread of IHEs (Fernandez, 2021).

Changes in the *kafala* system have been discussed for years but have yet to be profoundly implemented (Almaeena, 2020).

Expansion of business: The financially successful, albeit unethical, mechanisms of practice between IHEs and their Saudi partners have led to the expansion of IHE activities. Insufficient enforcement of market regulations supports the expansion of the phenomenon. IHE businesses have spread across Saudi Arabia, making it difficult for authorities to find them. The lack of solidarity between local businesses and the authorities translates to a lack of reporting of hidden businesses. An IHE observed: “*Most of the people (internationals) in this country are working like us (hiddenly), but nobody knows about them*” (IHE-02). The success and secrecy of the extant businesses breeds further expansion. For instance, another IHE commented: “*I have opened three more shops, and I am only recruiting my cousins*” (IHE-12).

Moreover, IHEs are usually well-connected within their communities and perpetuate concealment by hiring friends and relatives of the same nationality. Several IHEs reported:

“*My brother works with me in this business*” (IHE-05).

“*I asked one of my countrymen to work with me in the workshop, which is located in a private farmhouse, repairing and constructing wooden furniture for customers*” (IHE-09).

“*All of my workers are not Saudis... I only hire my own family to avoid any risk*” (IHE-07).

“*I will bring my daughter and my friends to work for me*” (IHE-03).

Not only do IHEs hire people from their community, but they also support each other in various ways including giving guidance on how to run their businesses, as evident from quotes below: “*They (other IHEs) have guided me step-by-step.*” (IHE-02). By hiring friends and family members, IHEs can feel surer that the authorities will not be informed about their businesses. IHEs’ connections within their communities and with customers, together with having good reputations for the services they provide, mean there are fewer complaints. An IHE explained: “*I only recruit workers of my same nationality, and our customer service is outstanding to avoid any complaints against the business. Because we are hidden, we must be extremely careful that our service to customer is much better than all other businesses*” (IHE-011). In these ways, IHEs keep their practices hidden and continue expanding their businesses.

IHEs further support each other in ways facilitated by communication methods and business proximity. For example, IHEs protect each other from the authorities during inspections, to avoid prosecution and remain hidden and functional: “*Sometimes governmental inspections occur in the market, and we inform each other by a chat group we have created to let each other know to disappear during the inspections*” (IHE-02). Overall, results clearly indicate that the hidden practices involve two parties: the IHEs and their Saudi partners.

Complex regulations and bureaucracy confronting IHEs: These factors include steep regulatory hurdles for entrepreneurs who are not Saudi citizens to establish business entities. The stringent costs and requirements for international investors in Saudi Arabia to have their businesses officially listed promote hidden entrepreneurship as shown in Table 3. Many documents need to be completed and submitted for official business registration, and these bureaucratic challenges contribute to the existence of IHEs in Saudi Arabia.

IHE-related normative factors

The normative factor assisted the existence of IHE practices in Saudi Arabia. IHE and their Saudi partners share values, norms, and beliefs enabling them jointly to construct hidden entrepreneurship in Saudi Arabia. These practices stem from verbal, not written, agreements between the IHEs and their Saudi partners. The verbal agreement includes how much the IHE pays to the Saudi partner on a regular basis and how in return the Saudi partner provides the business ownership identity for

the IHE. The Saudi partner takes responsibility for completing all government paperwork, including licensing and business ownership registration.

The IHEs have operational control of the business, under the name of the Saudi partner, as part of the hidden practices because of the expense of registering as a foreigner entrepreneur. An IHE explained: *"In my case, I am using the identity of my uncle. He is Saudi. I gave him some money to open this business and to be able to hire myself the people who work in my business"* (IHE-07). Yet another stated: *"I have an agreement with my Saudi partner that I pay him [the equivalent of] \$530 each month in return for being allowed to practice under his name"* (IHE-01). Regarding the agreement between the IHEs and their Saudi partners, one IHE said: *"A Saudi partner allows me to use his identity so I can hide from the authorities as long as he receives a fixed amount of money"* (IHE-05). One of the IHEs described his interaction: *"My relationship with my Saudi partner is based on mutual benefit. I pay him monthly, and he allows me to run the business under his name"* (IHE-11).

Saudi partner-related cognitive factors: Inadequate entrepreneurial skills and knowledge on the part of Saudi locals, a lack of zeal to acquire technical training, and an extant mindset toward outsourcing are Saudi cognitive factors supporting the existence of IHEs in the Saudi economy. At the present time, Saudis in the private or entrepreneurial sector tend to be more expensive and less productive than their migrant counterparts (Kayed & Hassan, 2010: 63), who have frequently acquired relevant skillsets in their home countries. The findings of this study reflect those of Busenitz et al. (2000), Coletto (2010), and Palmer (2009), who found that informal entrepreneurs possess skills and knowledge readily transferable to different markets.

Saudi partner-related normative factors: Social and cultural aspects contribute to the existence of IHEs. Our analysis revealed that the trust established between IHEs and their Saudi partners, *wasta* (influence), and societal acceptance of hidden activities are major contributory factors to the existence of IHEs in the Saudi market (Table 4). *Wasta* is a social influence and networking practice in which individuals help one another with non-monetary transactions (AlBuloushi, Al-Enzi, AlRe-shaid, Park, & Alsaber, 2024; Tlaiss & Kauser, 2011), indicating the key normative role of strong social ties in allowing the formation of hidden entrepreneurship in Saudi Arabia. Similar concepts of social influence exist internationally such as *blat* in Russia, *sifarish* in Pakistan, and *guanxi* in China. Our study also shows that Saudi partners receive financial compensation from IHEs for shielding their identities, while at the same time the Saudi partners control the visas of the IHEs, reinforcing the bilateral ethical and power balance conundrum. IHEs discover opportunities partly in lines of work deemed undesirable by Saudi citizens. These findings converge with Kayed and Hassan (2010) because, in Saudi Arabia, formal entrepreneurship by citizens must fit into the framework of what is socially acceptable. With respect to the often very high trust relationship between IHEs and their Saudi partners, our findings match previous research establishing that trust can serve as bedrock of hidden business activities (Jack et al., 2004; Welter, 2012). Table 5 shows the actual or perceived, intermittent or sustained, detrimental or potentially detrimental impact of IHEs on the Saudi local market in the views of Saudi entrepreneurs and officials.

Positive impact: IHEs as a medium of skills transfer

Hidden entrepreneurs are skillful, experienced, knowledgeable, and have good access to Saudi markets. They can therefore transfer skills to the Saudi market, inculcating new capabilities in Saudi citizens to mirror the skillsets of the IHEs. This process, if properly harnessed, can improve technical know-how for Saudi locals, thereby contributing to the measurable growth of the national economy. Our skills transfer finding is consistent with previous research (Alkhathlan, 2013; Hamod, 2010; Kelley et al., 2010) and consonant with the cognitive dimension of institutional theory, because IHEs are argued to be knowledgeable individuals with human capital valued by the host economy (Scott, 2014).

Table 5

Themes and illustrations of effects of hidden entrepreneurship on the Saudi economy and entrepreneurship based on interviews with Saudi entrepreneurs and officials.

Theme	Sub-themes	Summary of responses from Saudi based entrepreneurs	Applicable lens of institutional theory
Effect of hidden entrepreneurs on local Saudi businesses	IHEs as medium of skills transfer	*IHEs are very experienced and have helped my business by transferring their skills into my business operations.	Cognitive dimension
	IHEs promote unfair competition	*IHEs have a negative impact on my business. *IHEs are competing unfairly and causing huge damage to the local businesses.	Normative dimension
	IHEs control the market	*Hidden entrepreneurs' control most of the micro, small and medium enterprises (MSMEs) in Saudi Arabia	Normative dimension
Theme	Sub-themes	Summary of responses from MOCI officials	Applicable lens of institutional theory
Effect of IHEs on the overall economy	Increased unemployment among Saudi nationals	*IHEs usually employ their own relatives or other individuals from their same country rather than Saudi nationals.	Regulative dimension
	Earnings repatriated abroad	*IHEs transfer most of their earnings back to their home country, which has a negative impact on the Saudi local economy.	Regulative dimension
	Threat to 2030 SME agenda	*IHEs create risks for the 2030 Saudi agenda to increase the contributions of MSMEs to GDP	Regulative dimension
	Fraudulent engagements	*There are many court cases because of the fraudulent practices of IHEs. *Many counterfeit products in the Saudi market are the handiwork of IHEs.	Regulative dimension
	Circumvention of MOCI policies and avoidance of otherwise required taxes and payments	*IHEs bypass the MOCI regulations for international investors and operate secretly in the Saudi economy, thereby also bypassing all required payments including taxes.	Regulative dimension

Caption: This table is the property of the authors.

Negative impacts: IHEs as formidable competitors concentrating market power

Competitive landscape: IHEs operating within the informal or shadow economy have been observed to have, due to their skillsets and pricing, a competitive advantage over entrepreneurs in the formal sector, resulting in sometimes lower patronage of Saudi-operated businesses. This finding would apply only in sectors deemed socially acceptable for Saudi entrepreneurs to enter—for instance, higher levels of being a designer, retailer, or restaurateur. The advantage accruing to entrepreneurs in the informal economy has been determined to exist worldwide (Andrews et al., 2011; Hudson et al., 2012), in developed as well as developing economies (Neuwirth, 2011; Nichter & Goldmark, 2009; Webb et al., 2014). The coexistence of formal companies alongside hidden entrepreneurs means these firms compete within certain industries; while formal companies are legally registered, the IHEs operate at a cost and stealth competitive advantage (Perry et al., 2007). That IHEs disrupt competition and measurable economic growth confirms the normative dimension of institutional theory. The dissatisfaction of IHEs and their Saudi partners with governmental rules and regulations further encourages engaging in informal practices (Bàculo, 2006).

Market power: Our study found that IHEs gain market share and increase profitability by setting low prices while circumventing required business fees, consistent with research in Bulgaria, Croatia, North Macedonia (Garvanlieva et al., 2012; Novkova, 2017; Williams & Bezeredi, 2018), and Mexico (Macias & Cazzavillan, 2009). Operating as unregulated business entities, IHEs avoid tax payments, disrupt competition, and lower formal economic growth (Ordóñez, 2014; Perry et al., 2007; Webb et al., 2013; Webb et al., 2009). Additionally, the market power exerted by IHEs aligns with implications of the normative dimension of institutional theory. The finding that IHE activity increases in tandem with dissatisfaction with host government rules was observed in the informal economy of Italy as well (Bàculo, 2006).

Unemployment among Saudi nationals: The presence of IHEs has a complex interaction with citizen unemployment in Saudi Arabia. International workers comprise about 58 % of all employment in the country (Almoaibed, 2021). The size of the international workforce exerts pressure on the local labor market, raising the supply of labor relative to the number of available positions and thereby increasing the citizen unemployment rate, because international workers earn on average 11 % of a Saudi citizen salary and are willing to do a wider range of jobs (Cortés et al., 2023). Concerning cultural and prestige barriers to acceptable lines of work, an IHE commented: “Saudi people don’t like to work in a laundry. They look at this type of work as shameful to do” (IHE-01). Another IHE observed: “No Saudi Arabian woman will cut the nails of another woman. No Saudi Arabian woman will give a massage” (IHE-02).

In 2022 around two-thirds of Saudi citizens worked for the government (Khan, 2022). The unemployment rate in Saudi Arabia was reported at around 5 % for the total working age population and about 8.6 % for Saudi nationals in 2023 (GASTAT, 2023). Our study finds that IHEs typically employ other international workers to minimize operational costs and maintain secrecy, consistent with previous research (Alkhathlan, 2013; Cunningham & Maloney, 2000; Feld & Schneider, 2010; Schneider & Enste, 2013; Williams & Schneider, 2016). The regulative dimension of institutional theory suggests that hidden entrepreneurship and the unemployment implications correspond to the level of labor market restrictions and the inefficiency of government institutions. The normative dimension helps to explain the proliferation and success of IHE businesses when locals are unwilling to do certain types of work—for instance, salon, auto, or restaurant service—that IHEs will do.

Earnings transfer and profit repatriation: This study found that revenues from hidden practices are often transferred to other countries instead of being retained and invested in the Saudi market. According to the Saudi Arabian Monetary Authority, international workers

transferred \$36.91 billion in 2016 to other countries (Ramady, 2017). Dependence on international workers creates large outflows of money in countries throughout the Cooperation Council for the Arab States of the Gulf (Alkhathlan, 2013), even while reflecting a generally robust host economy (Vargas-Silva & Huang, 2006). Hidden entrepreneurship can contribute positively, officially, if IHEs spend most of the money immediately in the formal economy (Schneider & Williams, 2021) and if the remittance outflows encourage greater citizen productivity (Khan et al., 2019). Further, these findings corroborate the normative lens of institutional theory of interest in personal and family welfare and advancement and sensitivity to social cues, and the regulative lens that a high regulatory burden and complex web of bureaucracies promote participation in the informal economy and encourage IHE transfer of proceeds from their host economy abroad.

IHEs and Saudi Vision 2030: The findings of this study indicate that IHEs detract from the Saudi Vision 2030 target of increasing the contribution of SMEs to the national economy from 20 % to 35 % by year 2030 (Saudi Vision 2030, 2016). IHEs counteract the development of official entrepreneurship in the formal economy (Jones, 2024), and the goals of increasing and diversifying productivity by Saudi citizens in the private sector (Ulrichsen, 2016). Again, this finding can be seen from the perspective of the regulatory pillar of institutional theory, which upholds that high levels of bureaucracy and corruptive activities simultaneously drive entrepreneurs into the informal economy (Schneider, 2021), while ultimately mitigating the economic potential of these and any such shadow endeavors (Friedman et al., 2000).

Fraudulent engagements: This study underscores the close correlation between hidden entrepreneurship and fraud, confirming earlier findings of organized yet ethically questionable activity in the informal economy (Ponsaers et al., 2008). We find that IHEs under the aegis of their local partners engage in fraudulent practices. Many such incidents have been reported in the form of counterfeit goods, tax evasion, and obtaining loans without the knowledge of the Saudi partners, who are responsible for any legal obligations related to the business. Multiple court cases have ensued from these situations (Williams & Shahid, 2016). This finding can also be viewed through the regulative lens of institutional theory, arguing that informal—ranging from unethical to criminal—practitioners structurally rebel against burdensome regulations and share common features such as not paying operating fees, taxes, levies for permits, or payments for license renewals (Djankov et al., 2003).

MOCI: Interviews with MOCI officials indicated that the Saudi government perceives IHEs as obstructing the development of the Saudi economy and disrespecting the official entrepreneurship and international investor policies (Table 5). IHE business activities are by definition hidden and consequently difficult for host country governments to find and control (Djankov et al., 2003; Garvanlieva et al., 2012; Macias & Cazzavillan, 2009), also consistent with the regulative dimension of institutional theory (Kabir et al., 2023; Williams, 2017).

Discussion

The findings of this study reveal that international hidden entrepreneurs in Saudi Arabia emerge as adaptive responses to a complex interplay of institutional factors. Specifically, the stringent regulative environment, coupled with socio-cultural norms and cognitive skill advantages of migrant entrepreneurs, creates conditions that both constrain formal entrepreneurial activity and enable informal practices. The study identifies three key dynamics: first, IHEs operate as a response to the institutional complexities, such as restrictive regulations and high operational costs, which make formalization inaccessible for many non-citizens; second, catalysts for IHE emergence include the advanced technical skills of migrants, cultural acceptance of informal practices, and the collaboration between expatriates and local partners; and third, while IHEs contribute positively to the local economy by bridging formal and informal market gaps, their activities also pose challenges, such as regulatory evasion and unfair competition with formal businesses. These

findings underscore the nuanced and dual-edged impact of hidden entrepreneurship on Saudi Arabia's entrepreneurial ecosystem.

Our study shows that the ethical intricacies of hidden entrepreneurs arise through a combination of cognitive, regulative, and normative factors. IHEs can flourish due to asymmetric skillsets advantaging international workers relative to the Saudi workforce, in line with the cognitive pillar of institutional theory; IHEs and their Saudi partners pursue concealed activity due to the overly restrictive regulatory structure for business ownership, consistent with the regulative pillar of institutional theory; and IHEs and their Saudi partners are embedded in overlapping cultural contexts dictating appropriate forms of work and seemingly tacit approval of hidden activities, consonant with the normative pillar of institutional theory. To these refinements on an intuitional theory-driven understanding of hidden entrepreneurship, we add the ethical dilemmas in the interplay of the four parties: IHEs, their Saudi partners, Saudi entrepreneurs and citizens in general, and officials of the MOCI, all involved to various degrees in creating a setting that is conducive to unequal business partnerships in concealed ventures. Moreover, certain close-knit cultural contexts, such as the migrant entrepreneur and Saudi communities, create informal institutions—and, it could be argued, ethical standards—effectively governing entrepreneurial conduct by unwritten codes that are consistent within themselves but may be at odds with formal institutional rules (e.g., [Frederking, 2004](#)).

IHEs operate by verbal agreement with Saudi partners and remain hidden as entrepreneurs in the view of the authorities. In return, the Saudi partners receive regular monetary compensation for shielding the identities of the IHEs, who unofficially navigate the Saudi market. While the IHEs are not the formal business owners, they typically have operational power and control over the business. The Saudi partners proactively solicit or agree to their identities being used to conceal the roles of IHEs in the Saudi market. These bilateral findings dovetail with results from emerging market countries in Africa, Asia, and Latin America, specifically with [Cunningham and Maloney \(2000\)](#) in Mexico, [Finnegan and Singh \(2004\)](#) in Thailand and Zambia, [Mehrotra \(2009\)](#) in the 10 countries of the Association of Southeast Asian Nations, and [Cling et al. \(2010\)](#) in Vietnam.

Our study highlights that IHEs in Saudi Arabia are skilled individuals who can benefit the Saudi market, and their activities catalyze the local market access to a global workforce and resources. Often, IHEs in Saudi Arabia are highly experienced migrants who previously ran successful businesses in their home countries and subsequently run profitable MSMEs in the host nation. Accordingly, IHEs are important for business sustainability in the Saudi market their proficiencies provide goods and services to meet market demand. International workers use their skillsets from abroad to flourish in excel markets, and Saudi Arabia is no exception. Our findings corroborate those that of [Coletto \(2010\)](#) in Brazil, [Williams and Shahid \(2016\)](#) in Pakistan, and [Palmer \(2017\)](#) in Ghana, among others.

Nevertheless, we found mixed effects of IHEs on the Saudi market. While hidden entrepreneurship serves as a platform for skills transfer to local Saudi business owners, IHEs disrupt the competitive dynamics with the officially registered local Saudi businesses, and their experience, expertise, lower costs, and greater access to international suppliers mean that the IHEs can often dominate in this rivalry.

Further regarding the effects of IHEs, our study revealed the MOCI and Saudi local concerns that IHEs contribute to unemployment among Saudi nationals; IHEs repatriate substantial earnings to their countries of origin; IHEs undermine the Saudi Vision 2030 goal for formal economy MSME contributions to GDP; and IHEs engage in fraudulent and unregulated activities circumventing MOCI policies. Yet as part of the ethical conundrum and impasse, each of the above points has an evidence-based counter-assertion: unemployment among Saudi nationals partly reflects underdeveloped human capital and unwillingness to engage in certain forms of work; IHEs also spend substantial sums in local currency in the host country; some IHEs could potentially be

regularized in more legal, formal entrepreneurial ventures with Saudi partners officially contributing to Saudi Vision 2030; and the fraudulent, unregulated activities are a shared responsibility.

Theoretical implications

This study deepens institutional theory by illustrating that entrepreneurial activity, particularly those ventures that operate quietly beneath an officially sanctioned surface, emerges from a far more intricate weave of influences than we often acknowledge. While many prior accounts emphasize how rigid policies funnel entrepreneurs into informal spheres ([Bruton et al., 2010](#); [Lisi & Pugno, 2010](#)), that focus can overshadow the quieter but equally potent interplay of cultural expectations, interpersonal understandings, and the inventive mental resources entrepreneurs bring to bear. In the Saudi context, these dynamics are exceptionally clear. Here, migrant innovators rely on technical expertise, improvisational thinking, and a keen awareness of unwritten social cues to maneuver around regulatory restraints. This lens echoes the work of [Al-Mataani et al. \(2017\)](#), who revealed that informal practices can hide within ostensibly formal structures. Yet, the present research goes a step further, showing that regulative, normative, and cognitive pillars are not stable, siloed constructs. Instead, they constantly reshape one another, blurring boundaries, and sparking unconventional responses that formal frameworks alone cannot fully predict. In short, the study nudges institutional theory away from treating these pillars as static categories and toward seeing them as dynamic elements in perpetual motion.

Looking more broadly, the findings spotlight an aspect of entrepreneurship that often remains hidden, not because it lacks importance, but because it unfolds where attention seldom lingers. Within Saudi Arabia's economic landscape, these under-the-radar entrepreneurs navigate obstacles not merely by enduring them, but by reimagining how to use what is at hand. Their efforts reflect what [Huang et al. \(2023\)](#) propose about the fluidity between “opportunity” and “necessity”—categories that may be more intertwined than the literature sometimes suggests. Indeed, these individuals transform tight constraints into stepping stones, bridging formal and informal realms, uncovering niches that mainstream policies fail to address, and thereby quietly challenging the neat narratives embedded in large-scale initiatives like Saudi Vision 2030. Building on insights from [Bruton et al. \(2010\)](#) and [Al-Mataani et al. \(2017\)](#), this work encourages policymakers, institutional designers, and observers from all quarters to expand their field of vision. Rather than treating hidden entrepreneurship as a bothersome byproduct or marginal phenomenon, it might be more productive to recognize it as a window into how economic life unfolds in practice. By acknowledging the subtle interdependencies among rules, cultural currents, and individual ingenuity, we can begin crafting entrepreneurial ecosystems that are both more inclusive and more genuinely reflective of the real complexity.

Policy implications

Our findings suggest the need for a more flexible legal and administrative business registration process in Saudi Arabia. Currently, the strict and complex business registration requirements can encourage entrepreneurs to bypass the formal process, thereby further fueling the informal economy. By simplifying these regulations, policymakers would not only lower barriers to entry but also promote greater transparency and inclusiveness. This, in turn, could help legitimize many of the entrepreneurs who currently operate under the radar and bolster the formal economy to help Saudi Arabia reach its Vision 2030.

A second central implication concerns the skill gaps that sometimes prompt Saudi entrepreneurs to rely on the international hidden entrepreneurs and the informal economy. In this case, the government may facilitate training programs for the local entrepreneurs which could help build stronger skillset capacities within the formal local entrepreneurial

community. In addition to decreasing dependence on unregistered foreign expertise, such courses could foster more balanced, ethical, and legal partnerships between Saudi and international entrepreneurs.

Finally, a more rigorous and proactive approach from the MOCI could further mitigate the risks associated with hidden practices. The Ministry's responsibilities should extend to uncovering the true beneficiaries behind the informal local ventures, coupled with effective monitoring and rewards for reporting concealed activities. This would not only encourage transparent business operations but also build trust in the broader entrepreneurial ecosystem.

Limitations and future research directions

To our knowledge, our study is among the first to explore hidden entrepreneurship in an emerging market context with a view to enhance economic policy making. IHEs, Saudi partners of the IHEs, Saudi local entrepreneurs, and officials from the Saudi ministry were interviewed, providing a broader view of the issues. Our adoption of several data-driven approaches to optimize revelations is another strength in our study. For example, drawing as part of the projective technique was employed to facilitate IHEs' both conscious and unconscious expression of thoughts and feelings, and semi-structured interviews were employed to enhance open-ended responses from participants. Moreover, our thematic analysis was guided by business and humanitarian ethical perspectives as well as the three pillars of institutional theory, offering understanding from multiple perspectives. Furthermore, our dual inductive-deductive approach supports a rigorous analysis mitigating the risk of research bias (Bingham & Witkowsky, 2021). There are limitations of the study, including the focus on a singular geographic region and the absence of quantitative investigation. In selecting a region with a particular migrant-local entrepreneurial combination, with deep implications for economic policy making, and for extending comprehension of the informal economy around the globe, we were also limited by the lack of objective measures in relation to IHEs in Saudi Arabia. We recommend future research to explore situations in various emerging market countries and regions to increase the generalizability of findings to other areas around the world. Additionally, future research may explore how IHEs establish initial trust and agreements with local partners using nothing more than verbal agreements, and what ethical ramifications may arise from these types of agreements. Lastly, an exploration on how policy strategy can facilitate IHEs move from running informal businesses to becoming part of the formal economy with minimal disruptions would deepen insights offered in this study and strengthen the connection between theoretical frameworks and practice.

Conclusions

Our study provides a novel exploration into concealed entrepreneurship in an emerging market yet global context, confronting an ethical conundrum of expanding opportunities for migrant entrepreneurs and their Saudi partners while also evading local regulations. The evasions ultimately limit the protections and expansion available to migrant entrepreneurs, while curtailing the acquisition of entrepreneurial expertise by the citizen partners and constraining national economic growth. The situation is exploitative of migrant entrepreneurs, while constricting the genuine professional growth and recognition of both the migrant entrepreneurs and their Saudi partners. The MOCI officials play an enabling bystander role that promotes the entrepreneurial profile of the Saudi partners in the short term while undermining the longer-term entrepreneurial competency of those partners as well as the formal rather than shadow economic development. We have contributed insights for ethical understandings, institutional theory, and economic decision making. Overall, our study lays a foundation for future research avenues, emphasizing the need for continued exploration and nuanced investigation into the complex landscape of hidden

entrepreneurship in emerging markets.

Ethics

We have received ethical approval from the University of Sheffield ethics committee (Application Reference Number 023652) to conduct this study.

CRediT authorship contribution statement

Moayad Moharrak: Writing – original draft, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Faisal AlReshaid:** Writing – review & editing, Writing – original draft, Project administration, Methodology, Formal analysis, Data curation, Conceptualization. **Kathleen Marshall Park:** Writing – review & editing, Supervision, Methodology, Formal analysis. **Ahmad R. Alsaber:** Writing – review & editing, Supervision.

Declaration of competing interest

The authorship team has no conflict of interest in this paper.

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Supplementary materials

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