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# Legal Risks in Informal Business Agreements in the Digital Age: Understanding and Navigating Informal Contracts in Aurora Province

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**ABSTRACT:-** This study examined the legal risks associated with informal business agreements among sole proprietorships in Aurora Province. Specifically, it described the respondents' demographic and business profiles, assessed their reliance on informal business agreements, legal awareness, legal risk exposure, and institutional support, and examined the relationship among these variables. A quantitative descriptive-correlational research design was employed involving 378 sole proprietorships selected through proportionate stratified and systematic random sampling. Data were gathered using a validated researcher-developed questionnaire and analyzed using descriptive statistics, Pearson's Product-Moment Correlation, and Hayes' PROCESS Macro for mediation and moderation analyses at the 0.05 level of significance. The findings revealed that respondents frequently relied on informal business agreements, particularly trust-based arrangements and digital communications, while demonstrating only moderate legal awareness and institutional support. Legal risk exposure was experienced at a moderate level, primarily through contractual misunderstandings, delayed payments, financial losses, and difficulties in enforcing agreements. A weak but significant positive relationship existed between reliance on informal business agreements and legal risk exposure. However, legal awareness did not significantly mediate, and institutional support did not significantly moderate, this relationship. Based on these findings, a Legal Risk Management Framework was developed to promote safer, legally compliant, and sustainable business transactions through risk identification, contract documentation, evidence preservation, legal awareness, institutional engagement, and continuous improvement. The study contributed empirical evidence supporting proactive legal risk management among sole proprietorships in the digital age.

**Keywords:** *informal business agreements, legal risk exposure, legal awareness, institutional support, sole proprietorships*

## I. INTRODUCTION

Informal business contracts are common in the world of business today. These agreements are usually used by the sole proprietorship as a means of business engagements. According to Loayza (2018), informality remains widespread in developing economies because many entrepreneurs perceive formal procedures as costly, complex, and inaccessible. As a result, business owners often rely on informal arrangements that provide flexibility and lower transaction costs despite the associated legal and financial risks (Mina, 2024). They prefer informal contracts because it is fast, simple to use and easy to manage. This is particularly true when trust and ability to make decisions quickly are important. Even though informal business agreements are easy to use, it may cause legal and financial problems for individuals. Medina and Schneider (2019) reported that informal economic activities continue to represent a substantial portion of economic output in many developing countries. Increase exposure to legal and financial risks may have been caused by the perseverance of informal economy. Many business owners may not realize that their livelihood will be in danger circumstances such as fights, losses, and long-term financial difficulties if the agreement they will be entered is without paper work, un clear promises or lacking of enforceable protections (Domingo & Mina, 2024).

Informal business structures remain a significant component of economic activity in developing local economies according to Harman et al. (2022). Considering how this business structure operates is important for policy formulation and innovations that encourage sustainable livelihood and responsible business conduct.
Since there is now the advent of digital technology, business owners also adapted in this change. They are now transacting their business through phone call, chats, messaging and other social media applications instead of having face to face signing of contract. It has been easier to penetrate the markets and generate money out of it because of digital adaptation. The expansion of e-commerce reshaped how the business conducts its transactions. Mohammad et al. (2025) observed that while digital agreements provide convenience and access broader market streams, they may also lead to legal and operational challenges that need strict adherence to legal compliance, data integrity, and formal record-keeping. But it has also become harder to identify the

difference between official and informal transactions. Some individuals transact business without ever reading the contract, writing it down or talking to a lawyer. They usually accomplish this by making promises over the phone or via brief text messages. Researchers assert that digital communications such as emails, text and social media, may create legally binding obligations when the fundamental components are present- offer, acceptance and consideration according to Samson (2019). This means that people might still be held liable even if they didn't intend to sign a contract. People sometimes think that the legal impacts of what they do in digital business are less severe than they actually are because they feel safer when they aren't in a formal setting. As more individuals utilize informal digital agreements, the law is becoming less clear. This is particularly true for proprietors of micro and small businesses who can't get legal help.

Studies show that informal contracting is common in both developed and developing economies across the globe. According to Mbaye and Benjamin (2012), informal enterprises constitute a substantial portion of economic activity in many developing economies. As often influenced by formalization, institutional support constraint and associated expenses with legal compliance, they continued rely in informal agreements. These are the reasons why many small business owners prefer informal business agreements despite the potential risks of legal and financial difficulties. Rather than venturing into formal contracts, owners favor to conduct businesses informally. These agreements work best when both sides trust each other a lot and have spent a lot of time together. Once disagreements occurred, then it will create an issue. Legal systems say that a contract can't be enforced unless there is evident offer, acceptance and consideration according to Samson (2019). Unfortunately, in informal agreements usually don't have the documentations that suggests they satisfy these components. It becomes hard for anybody engaged in these kinds of deals to safeguard their rights and get their money back. This incidence shows a huge difference between regulations that are supposed to oversee business and how they really work.

In rural areas like Aurora Province, this situation is worse since business owners have limited access to legal help, they prefer to do business based on trust, and there isn't enough enforcement. A lot of owners assume that contracts are not needed, cost too much, or are too hard to utilize. Rather, they make verbal or written promises. However, they are vulnerable to a lack of legal safeguards in the event of a disagreement because of the unwritten arrangement. Informal economic transactions continue to dominate in emerging local economies since they provide simplicity to use and convenience despite, they may encounter legal and financial risks, Chen (2018).

The researcher was inspired to study this topic due to witnessing an actual experience. A close relative was bankrupt and was drowned in a lot of debts due to informal business agreements that has no legal protection. What began as trust-based transactions became a money-based agreement. This instance highlighted how fast informal agreements may lead to financial difficulties, particularly to those who are not knowledgeable of the law and has limited access to legal support.

Since these circumstances affected their livelihood and well-being, we need to understand and navigate informal contracts in the digital age, why they last and how to keep people safe from their bad implications. In developing economies, informal activities are significant source of income, and business opportunities as noted by Fields (2019). Likewise, reliance on informal business agreements often offers lacking legal protection and causes exposure to financial uncertainty and instability.

This study aimed to support safer and smart entrepreneurship, strengthen local economic development and legally compliant business structure by identifying legal risks and promoting cautious business practices. Small businesses play a critical role in local economic development, but they have more operational challenges than larger businesses. According to Nemec (2025), micro and small enterprises are more prone to business risks, as resources, opportunities, and government support are not always evenly available across the business structures. Likewise, Sakariyahu et al. (2026) noted that quality of business environment in emerging economies effects larger development outcomes. This finding emphasizes the significance of establishing government legal provision and encouraging business practices that support sustainable economic growth on which this study included sole proprietors from the eight municipalities of Aurora Province.

Existing studies have primarily examined informality from economic, taxation, or labor market perspectives. There are many observed studies on how corporations rely on formal written contracts but there are fewer studies that have examined the use of informal agreements in everyday transactions of sole proprietorships particularly in the rural areas of the Philippines where formal written contracts are increasingly being replaced by digital communication. Furthermore, limited research has simultaneously examined the roles of legal awareness and institutional support in explaining how informal contracting influences legal risk exposure. This gap provides the empirical motivation for the present study.

Thus, this study analyzed the legal risks associated with the use of informal business agreements among sole proprietorships in the digital age in Aurora Province. Specifically, it described the respondents' demographic and business profiles; assessed the extent to which sole proprietorships relied on informal business agreements, their level of legal awareness, the degree of legal risk exposure, and the extent of institutional support related to informal business agreements. It also examined the significant relationship between reliance on informal business agreements and legal risk exposure, determined whether legal awareness explained the relationship between reliance on informal business agreements and legal risk exposure, and evaluated whether institutional support significantly influenced this relationship. Based on the findings, the study proposed a Legal Risk Management Framework to promote safer, legally compliant, and sustainable business transactions among sole proprietorships in Aurora Province.

## II. METHODOLOGY

This study employed a quantitative descriptive-correlational research design to examine the legal risks associated with informal business agreements among sole proprietorships in the digital age in Aurora Province. A structured researcher-developed questionnaire was used to collect data from 378 sole proprietorships, selected through proportionate stratified sampling and systematic random sampling across the eight municipalities of Aurora Province. The instrument measured the respondents' demographic and business profiles, reliance on informal business agreements, legal awareness, legal risk exposure, and institutional support. Prior to data collection, the questionnaire underwent expert validation and pilot testing, yielding acceptable to excellent reliability coefficients (Cronbach's $\alpha$ = 0.804–0.958). Data were gathered through face-to-face survey administration after securing the necessary permissions and informed consent from the participants while ensuring confidentiality and compliance with ethical standards. The collected data were encoded and analyzed using IBM SPSS Statistics Version 26 and Hayes' PROCESS Macro. Descriptive statistics, including frequency, percentage, weighted mean, and standard deviation, were used to summarize the data, while Pearson's Product-Moment Correlation Coefficient determined the relationship between reliance on informal business agreements and legal risk exposure. Mediation analysis (PROCESS Model 4) examined the explanatory role of legal awareness, whereas moderation analysis (PROCESS Model 1) assessed the influence of institutional support on the relationship between reliance on informal business agreements and legal risk exposure. All statistical tests were conducted at a 0.05 level of significance.

## III. RESULTS AND DISCUSSION

This section presents, analyzes, and discusses the findings of the study based on the research objectives, highlighting the respondents' profiles, the levels of reliance on informal business agreements, legal awareness, legal risk exposure, institutional support, the relationships among the study variables, and the proposed Legal Risk Management Framework.

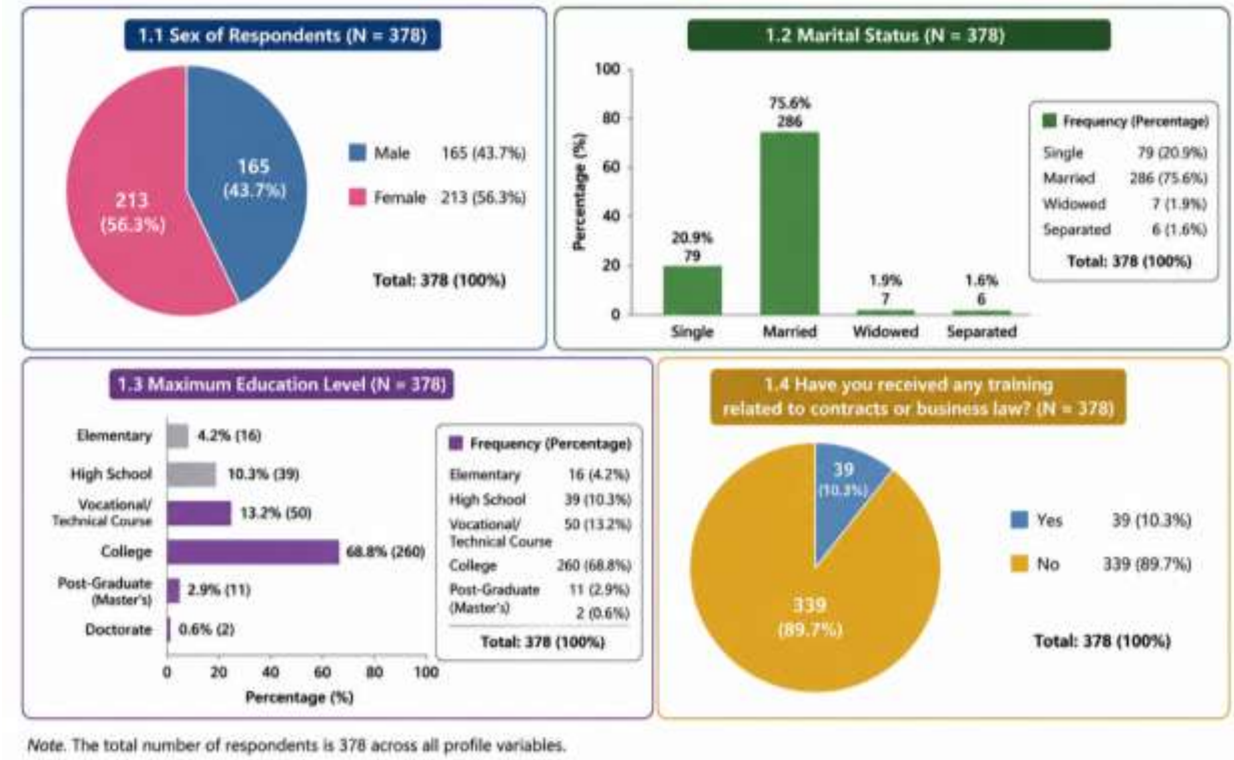



*Figure 1. Demographic Profile of the Respondents*

The Figure 1 above presents the demographic profile of the 378 sole proprietors who participated in the study. Most respondents were female (56.3%), while 43.7% were male. The majority were married (75.6%), followed by single respondents (20.9%), with only a few being widowed (1.9%) or separated (1.6%). In terms of educational attainment, most were college graduates (68.8%), followed by those with vocational or technical education (13.2%) and high school graduates (10.3%). However, despite their educational background, only 39 respondents (10.3%) had attended training related to contracts or business law, while 89.7% had not.

These findings indicate that sole proprietorships in Aurora Province are largely managed by educated female entrepreneurs who balance business and family responsibilities. Nevertheless, the low participation in legal or contract-related training suggests that formal education alone does not ensure adequate legal literacy. As a result, many business owners may rely on experience, trust, and customary business practices when entering into agreements, consistent with Institutional Theory (North, 1990; Scott, 2014). Likewise, the findings support Quijano and Natividad (2025), who emphasized that legal awareness strengthens confidence and promotes legally compliant business practices. The results highlight the need for capacity-building programs on business contracts, legal compliance, and digital transactions to reduce legal risks among sole proprietors.

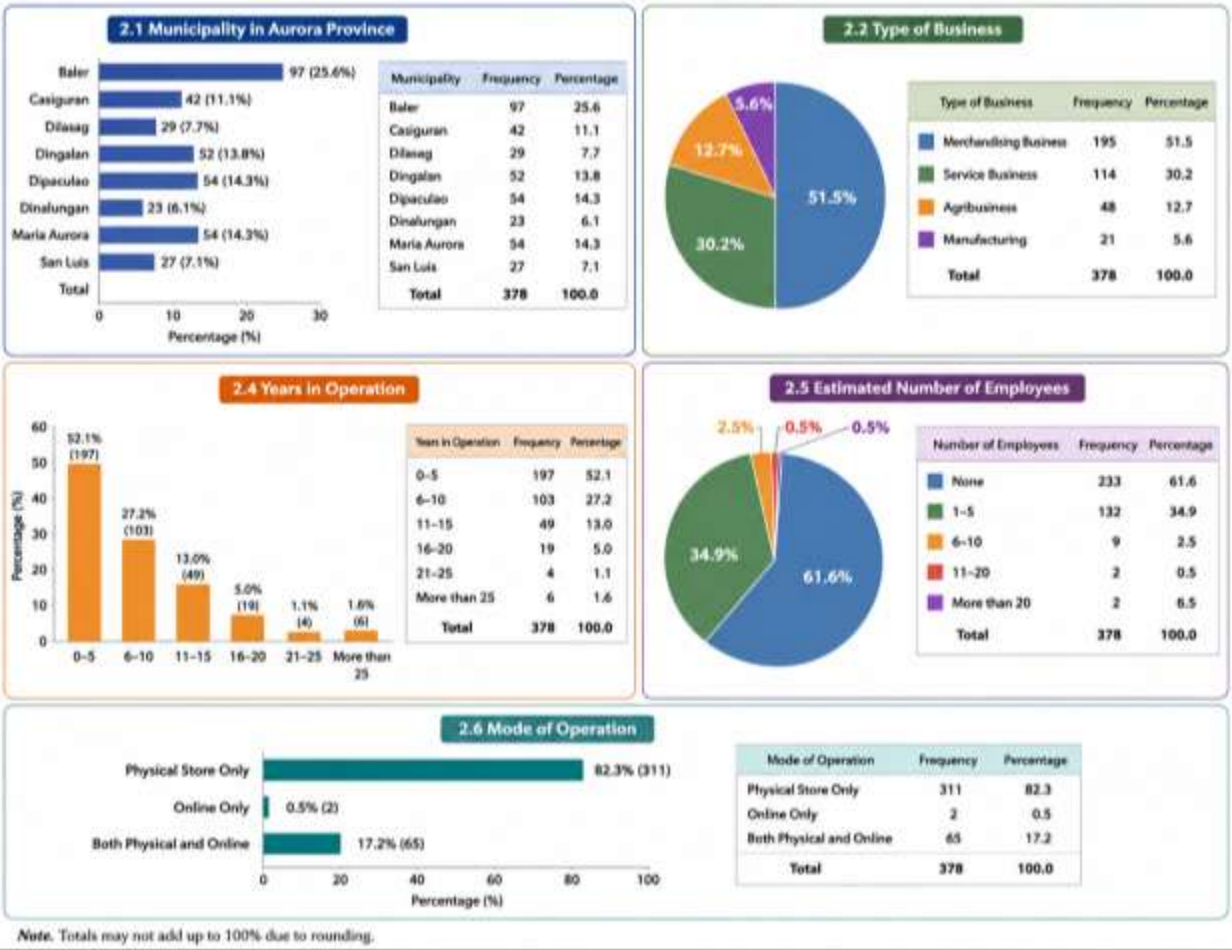
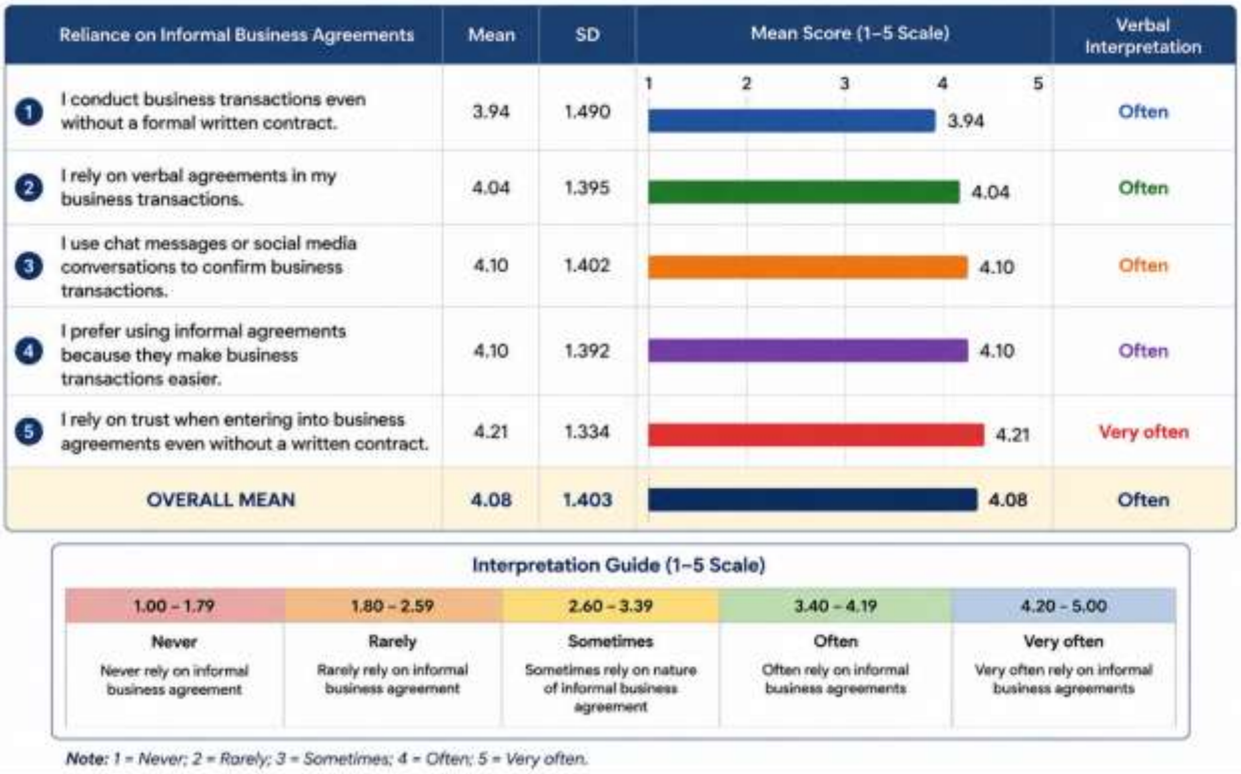



***Figure 2. Business Profile of the Respondents***

The Figure 2 above presents the business profile of the 378 sole proprietors who participated in the study. Most respondents were from Baler (25.6%), followed by Dipaculao and Maria Aurora (14.3% each), while Dinalungan had the fewest respondents (6.1%), reflecting the proportional distribution across Aurora Province. Merchandising businesses comprised the largest group (51.5%), followed by service (30.2%), agribusiness (12.7%), and manufacturing (5.6%). More than half of the businesses (52.1%) had been operating for 0–5 years, indicating that most were relatively young enterprises. In terms of employment, 61.6% had no employees and 34.9% employed one to five workers, confirming that the respondents were predominantly owner-operated microenterprises. Most businesses (82.3%) operated exclusively through physical stores, while 17.2% used both physical and online channels, and only 0.5% operated solely online.

The data revealed that the sole proprietorships in Aurora Province are mostly youthful owner-managed microenterprises involved in commerce and traditional company operations. They may not have the organizational resources to operate at a greater scale and so prefer to use informal agreements instead of formal contracts, which is consistent with Transaction Cost Economics (TCE) suggesting that enterprises choose the governance structure that minimizes transaction costs (Coase, 1937; Williamson, 1985). Further evidence for Macaulay's (1963) observation that everyday commercial transactions often rest on trust-based relationships rather than formal written agreements is the proliferation of retailing firms. While physical stores continue to be the major ways of doing business, the development of hybrid business models underscores the growing demand for more legal understanding and institutional support to deal with the legal issues of digital transactions.



| Reliance on Informal Business Agreements | Mean | SD | Mean Score (1–5 Scale) | Verbal Interpretation |
|---|---|---|---|---|
| 1 I conduct business transactions even without a formal written contract. | 3.94 | 1.490 | 3.94 | Often |
| 2 I rely on verbal agreements in my business transactions. | 4.04 | 1.395 | 4.04 | Often |
| 3 I use chat messages or social media conversations to confirm business transactions. | 4.10 | 1.402 | 4.10 | Often |
| 4 I prefer using informal agreements because they make business transactions easier. | 4.10 | 1.392 | 4.10 | Often |
| 5 I rely on trust when entering into business agreements even without a written contract. | 4.21 | 1.334 | 4.21 | Very often |
| OVERALL MEAN | 4.08 | 1.403 | 4.08 | Often |

Interpretation Guide (1–5 Scale)

| 1.00 – 1.79 | 1.80 – 2.59 | 2.60 – 3.39 | 3.40 – 4.19 | 4.20 – 5.00 |
|---|---|---|---|---|
| Never | Rarely | Sometimes | Often | Very often |
| Never rely on informal business agreement | Rarely rely on informal business agreement | Sometimes rely on nature of informal business agreement | Often rely on informal business agreements | Very often rely on informal business agreements |

*Note: 1 = Never; 2 = Rarely; 3 = Sometimes; 4 = Often; 5 = Very often.*

***Figure 3. Reliance on Informal Business Agreements***

The Figure 3 above presents the respondents' level of reliance on informal business agreements. The highest-rated indicator was relying on trust when entering business agreements without a written contract (M = 4.21, SD = 1.33), interpreted as Very Often, indicating that interpersonal trust remains the primary basis of business relationships. Respondents also often used chat messages or social media conversations to confirm transactions (M = 4.10), preferred informal agreements because they simplified transactions (M = 4.10), relied on verbal agreements (M = 4.04), and conducted business without formal written contracts (M = 3.94).

These results suggested that the practice of informal agreements still prevails among single proprietorships in Aurora Province. This heavy reliance on trust is consistent with the Relational Contract Theory, which states that long-term economic partnerships are maintained through trust and mutual expectations and not formal written contracts (Macneil, 1980). Macaulay (1963) also contended that entrepreneurs prefer informal arrangements because they are practical, adaptable and efficient. The widespread usage of digital communication is also reflective of the expanding role of electronic transactions but entrepreneurs must be aware of their legal ramifications under the Electronic Commerce Act of 2000 (Republic Act No. 8792). Although informal agreements usually make transactions more efficient and reduce costs (Coase, 1937; Williamson, 1985) as suggested by Transaction Cost Economics, they may also increase the likelihood of legal conflicts between businesses if there is not enough documentation.


**Figure 4.** ***Level of Legal Awareness among Sole Proprietorships***

Figure 4 presents the respondents' legal awareness regarding verbal agreements, electronic communications, digital evidence, record keeping, and payment terms. The highest-rated indicator was awareness of the importance of clearly stating payment terms in digital transactions (M = 2.73, SD = 1.56), followed by awareness that verbal agreements can be legally binding (M = 2.70, SD = 1.54), both interpreted as Somewhat Agree. Awareness that electronic messages may be used as court evidence and that screenshots or digital records should be retained both obtained a mean of 2.67. The lowest-rated indicator was awareness that chat messages and emails can constitute legally binding contracts (M = 2.55, SD = 1.54), interpreted as Fairly Agree.

The results showed that sole proprietors have a modest level of legal awareness, being more aware of payment terms and oral contracts than of the legal effects of electronic communications. This is significant since respondents often relied on chat messages and social media to verify transactions but were less familiar with the legal effects of electronic communications under the Electronic Commerce Act of 2000 (Republic Act No. 8792) and the Rules on Electronic Evidence. The results show that digital data are generally preserved for convenience rather than legal protection. This result is in line with Institutional Theory, which posits that limited access to legal information and training results in the application of informal norms rather than formal legal knowledge (North, 1990; Scott, 2014). With 89.7% of respondents not having any training in contract or company law, the data suggest that there is a need for accessible legal education on electronic contracts, documentation and conflict prevention.

| Legal Risk Exposure | Mean | SD | Mean Score (1–5 Scale) | Verbal Interpretation |
|---|---|---|---|---|
| 1 I have experienced disputes or misunderstandings because the terms of an informal business agreement were unclear. | 3.27 | 1.401 | 3.27 | Sometimes |
| 2 I have experienced delayed or non-payment in transactions covered only by an informal agreement. | 3.19 | 1.436 | 3.19 | Sometimes |
| 3 I have had difficulty resolving a business dispute because there was no formal written contract. | 3.19 | 1.401 | 3.19 | Sometimes |
| 4 I have suffered financial loss because the responsibilities, prices, payment terms, or delivery conditions were not clearly documented. | 3.17 | 1.411 | 3.17 | Sometimes |
| 5 I have been unable to enforce an agreement or claim compensation because I lacked sufficient written or digital evidence. | 3.14 | 1.394 | 3.14 | Sometimes |
| OVERALL MEAN | 3.19 | 1.409 | 3.19 | Sometimes |



Interpretation Guide (1–5 Scale)

| 1.00 – 1.79 | 1.80 – 2.59 | 2.60 – 3.39 | 3.40 – 4.19 | 4.20 – 5.00 |
|---|---|---|---|---|
| Never | Rarely | Sometimes | Often | Very Often |
| Never experienced legal risk exposure | Rarely experienced legal risk exposure | Sometimes experienced legal risk exposure | Often experienced legal risk exposure | Very often experienced legal risk exposure |

**Note:** Scale ranges from 1 (Never) to 5 (Very Often). Higher mean scores indicate higher levels of legal risk exposure.

**Figure 5.** ***Legal Risks Exposure Experienced by Sole Proprietorship as a result of Informal Business Agreements***

The Figure 5 above presents the legal risk exposures experienced by sole proprietorships due to their reliance on informal business agreements. The highest-rated indicator was experiencing disputes or misunderstandings because agreement terms were unclear (M = 3.27, SD = 1.40), interpreted as Sometimes. Delayed or non-payment under informal agreements and difficulty resolving disputes without written contracts both obtained a mean of 3.19, while financial losses resulting from poorly documented responsibilities, prices, payment terms, or delivery conditions had a mean of 3.17. The lowest-rated indicator, inability to enforce agreements or claim compensation due to insufficient written or digital evidence (M = 3.14, SD = 1.39), was also interpreted as Sometimes.

The findings suggested that sole proprietors may be at risk for some legal exposure when business arrangements are unclear or undocumented. Informal agreements may minimize transaction costs and facilitate normal transactions, but may increase enforcement costs when conflicts arise, in line with Transaction Cost Economics (Coase, 1937; Williamson, 1985). Correspondingly, Relational Contract Theory (Macneil, 1980) suggests that economic transactions are possible with trust-based relationships, but not without the prospect of contractual disputes. The findings also reveal that low legal awareness and poor recordkeeping lead to financial loss and difficulty in evidence. Therefore, raising legal awareness and encouraging adequate documentation, including the preservation of electronic records, are essential to minimize legal risks in informal business agreements.

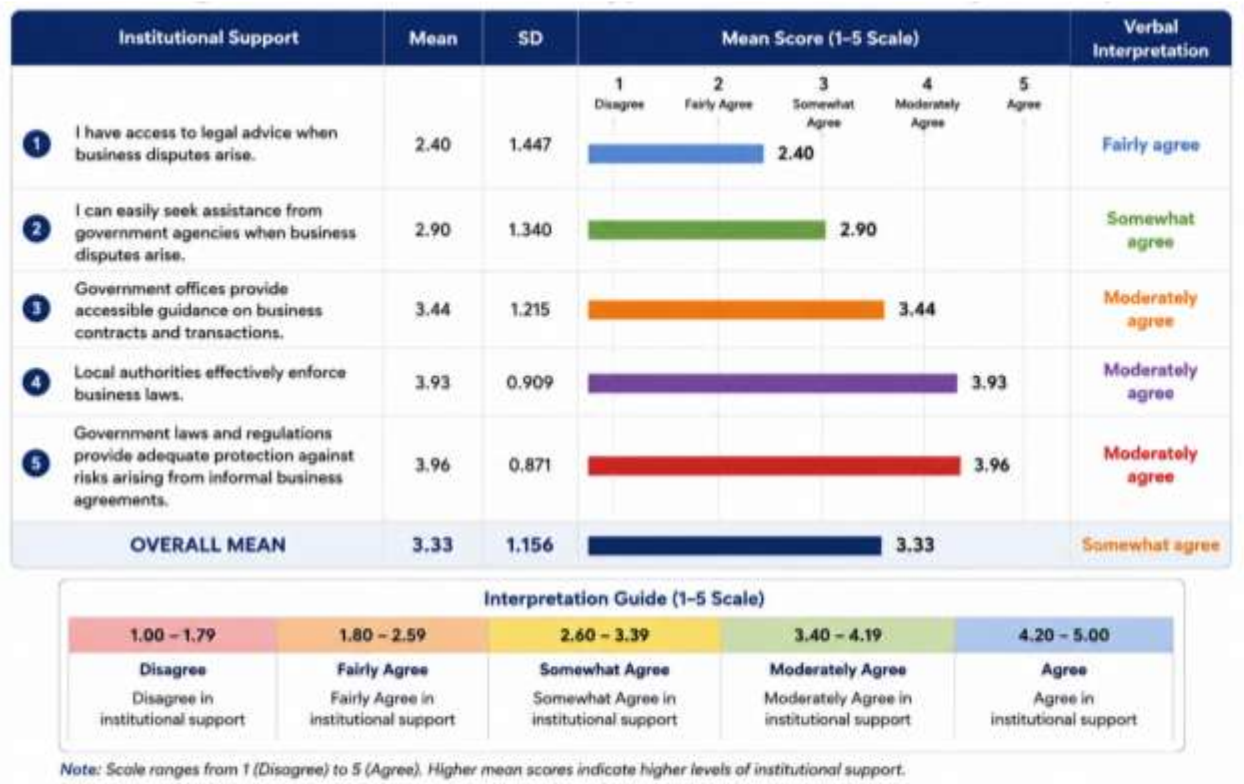



**Figure 6.** ***Level of Institutional Support Available to Sole Proprietorships***

Figure 6 presents the respondents' perceptions of institutional support for sole proprietorships using informal business agreements. The highest-rated indicator was that government laws and regulations provide adequate protection against risks arising from informal business agreements (M = 3.96, SD = 0.87), followed by the perception that local authorities effectively enforce business laws (M = 3.93, SD = 0.91), both interpreted as Moderately Agree. Respondents also moderately agreed that government offices provide accessible guidance on business contracts and transactions (M = 3.44, SD = 1.22). However, they only Somewhat Agreed that they could easily seek assistance from government agencies during business disputes (M = 2.90, SD = 1.34), while access to legal advice received the lowest rating (M = 2.40, SD = 1.45), interpreted as Fairly Agree.

The results revealed that respondents are aware of laws, rules, and enforcement procedures but have limited access to direct legal aid. This is consistent with the Institutional Theory which argues that formal institutions influence company conduct by lowering uncertainty through legal laws and regulatory systems (North, 1990; Scott, 2014). Government entities are seen as sources of legal counsel, yet businesses may encounter obstacles such as lack of information, cumbersome procedures or insufficient access to legal services. The results are in line with previous findings of common use of informal agreements and little legal awareness The institutional support is higher in the legal framework than in the actual legal help. Strengthening legal advice, better access to government support and expanded legal education programs could help to mitigate contractual risks and strengthen legal protection for sole owners.

***Table 1. Relationship Between Reliance on Informal Business Agreements and Legal Risk Exposure among Sole Proprietorships in Aurora Province***

| Variables | Pearson's *r* | *p*-value | Decision | Interpretation |
|---|---|---|---|---|
| **Reliance on Informal Business Agreements and Legal Risk Exposure** | **0.31** | **< .001** | Reject $H_0$ | Weak Positive Significant Relationship |
| **Note.** ***N*** **= 378. Correlation is significant at the 0.01 level (2-tailed).** | | | | |
| **Pearson's r Interpretation:** ***0.00–0.19 = Very Weak; 0.20–0.39 = Weak; 0.40–0.59 = Moderate; 0.60–0.79 = Strong; 0.80–1.00 = Very Strong.*** | | | | |

Table 1 presents the relationship between exposure to legal risk and reliance on informal business agreements among sole proprietorships in Aurora Province. The analysis revealed a weak but statistically significant positive correlation between the two variables ($r = .31$, $p < .001$), leading to the rejection of the null hypothesis. This indicates that greater reliance on informal business agreements is associated with higher exposure to legal risks.

The findings suggest that entrepreneurs who frequently depend on verbal agreements, trust-based arrangements, and informal digital communications are more likely to encounter contractual disputes, delayed payments, financial losses, and difficulties in enforcing business obligations. Although the relationship is weak, its statistical significance demonstrates that the observed association is unlikely to have occurred by chance.

The results support Transaction Cost Economics (Coase, 1937; Williamson, 1985), which explains that while informal agreements reduce the costs of negotiating and drafting formal contracts, they may increase enforcement and dispute-resolution costs when disagreements arise. Likewise, Relational Contract Theory (Macneil, 1980) emphasizes that trust-based relationships facilitate business transactions but cannot fully prevent misunderstandings or conflicting expectations in the absence of clear documentation.

The findings are also consistent with the descriptive results showing that respondents frequently relied on informal agreements and occasionally experienced legal risks, including payment disputes and contractual misunderstandings. However, the weak correlation indicates that informal agreements are not the sole determinant of legal risk exposure. Other factors, such as legal awareness, institutional support, transaction complexity, and business practices, may also influence legal risk. These findings support the inclusion of legal awareness as a mediating variable and institutional support as a moderating variable in subsequent analyses, while reinforcing previous studies that identified informal contracting as both a practical business strategy and a potential source of contractual uncertainty and legal vulnerability.

***Table 2. Legal Awareness Significantly Explain the Relationship Between Reliance on Informal Business Agreements and Legal Risk Exposure***

| Effect | Effect | SE | *p* | 95% LLCI | 95% ULCI | Decision |
|---|---|---|---|---|---|---|
| **Total Effect** | 0.3157 | 0.0499 | < .001 | 0.2175 | 0.4138 | Significant |
| **Direct Effect** | 0.3377 | 0.052 | < .001 | 0.2355 | 0.4399 | Significant |
| **Indirect Effect** | −0.0220 | 0.0183 | — | −0.0611 | 0.0117 | Not Significant |

Table 2 presents the mediation analysis examining whether legal awareness mediates the relationship between reliance on informal business agreements and legal risk exposure using Hayes' PROCESS Model 4. The results showed that the total effect of reliance on informal business agreements on legal risk exposure was significant (Effect = 0.3157, $p < .001$). After controlling for legal awareness, the direct effect also remained significant (Effect = 0.3377, $p < .001$). However, the indirect effect through legal awareness was not significant (Effect = -0.0220, 95% BootCI [-0.0611, 0.0117]), as the confidence interval included zero. Thus, the null hypothesis was not rejected, indicating that legal awareness did not significantly mediate the relationship.

These findings suggest that reliance on informal business agreements directly increases legal risk exposure regardless of the entrepreneur's level of legal awareness. Business owners who frequently rely on verbal agreements, trust-based arrangements, and informal digital communications remain vulnerable to contractual misunderstandings, payment disputes, financial losses, and evidentiary challenges even when they possess some legal knowledge.

The results support Transaction Cost Economics (Coase, 1937; Williamson, 1985), which explains that informal agreements reduce transaction costs but may increase enforcement costs and legal uncertainty when disputes arise. Likewise, Relational Contract Theory (Macneil, 1980) suggests that trust-based relationships facilitate cooperation but cannot eliminate contractual risks. The absence of mediation may also reflect the respondents' generally moderate legal awareness and the tendency of entrepreneurs to prioritize convenience, long-standing relationships, and lower contracting costs over formal documentation. Overall, the findings indicate that improving legal awareness alone is insufficient to reduce legal risk. Greater emphasis should also be placed on encouraging proper documentation, formal contracting practices, and accessible legal support to minimize the risks associated with informal business agreements.

***Table 3. Institutional Support Significantly Influence the Relationship Between Reliance on Informal Business Agreements and Legal Risk Exposure***

| Predictor | B | SE | t | p | 95% CI LL | 95% CI UL |
|---|---|---|---|---|---|---|
| **Constant** | 3.1973 | 0.0632 | 50.598 | < .001 | 3.0731 | 3.3216 |
| **Reliance on Informal Business Agreements (X)** | 0.3083 | 0.0502 | 6.146 | < .001 | 0.2096 | 0.4069 |
| **Institutional Support (W)** | 0.1128 | 0.0728 | 1.549 | 0.122 | -0.0304 | 0.2561 |
| **X × W (Interaction)** | 0.0849 | 0.0445 | 1.906 | 0.057 | -0.0027 | 0.1724 |
| **Model Summary:** | | | | | | |
| **R** | **$R^2$** | **F** | **p** | | | |
| **0.329** | 0.108 | 15.083 | < .001 | | | |
| **Interaction Effect** | | | | | | |
| **$\Delta R^2$** | **F** | **p** | **Decision** | | | |
| **0.0087** | 3.634 | 0.057 | Not Significant | | | |

**Note:** ***N = 378. PROCESS Model 1 with Institutional Support as the moderator. Variables were mean-centered prior to analysis.***

Table 3 presents the moderation analysis using Hayes' PROCESS Model 1 to determine whether institutional support moderates the relationship between reliance on informal business agreements and legal risk exposure. The regression model was statistically significant (R = .329, $R^2$ = .108, F = 15.083, p < .001), explaining 10.8% of the variance in legal risk exposure. Reliance on informal business agreements significantly predicted legal risk exposure (B = 0.3083, p < .001), indicating that greater reliance on informal agreements was associated with higher legal risk exposure. However, institutional support was not a significant predictor (B = 0.1128, p = .122), and the interaction between reliance on informal agreements and institutional support was also not significant (B = 0.0849, p = .057). Thus, the null hypothesis was not rejected.

These findings indicate that institutional support did not significantly weaken or strengthen the relationship between reliance on informal business agreements and legal risk exposure. While respondents recognized the existence of government laws and regulatory mechanisms, they reported only moderate access to legal guidance, particularly legal advice during business disputes. This suggests that existing institutional support may not be sufficiently accessible or influential to alter entrepreneurs' reliance on informal contracting practices.

The results are partially consistent with Institutional Theory (North, 1990; Scott, 2014), which emphasizes the function of formal institutions in decreasing uncertainty and promoting legal compliance. Yet the results suggest that business owners still value ease, trust-based connections, and lower transaction costs more than formal paperwork, even when institutional processes are in place. Overall, the results indicate the need for more than the existing institutional support to reduce legal risk. In an effort to better protect sole proprietorships from the risks of informal business arrangements, there is a need to enhance legal advising services, increase knowledge of government aid, and promote formal documentation and legally enforceable contracts.


**Figure 7.** ***Proposed Legal Risk Management Framework***

This study proposed a Legal Risk Management Framework for Sole Proprietorships based on the findings to promote safe, legally compliant, and sustainable business transactions among sole proprietorships in Aurora Province. The framework adopts a preventive rather than a reactive approach to legal risk management through six interrelated components. First, entrepreneurs are encouraged to identify legal risks by recognizing transactions that rely heavily on verbal agreements, informal digital communications, or unwritten commitments. Second, they should prepare simple written agreements or electronic contracts that clearly define the obligations of the parties, payment terms, pricing, delivery schedules, timelines, and dispute resolution procedures. Third, business owners are advised to preserve documentary and digital evidence, including contracts, invoices, receipts, purchase orders, emails, text messages, screenshots, and social media communications, to strengthen the enforceability of business agreements. Fourth, entrepreneurs should continuously enhance their legal awareness by familiarizing themselves with relevant laws, including the Civil Code of the Philippines, the Electronic Commerce Act of 2000 (Republic Act No. 8792), the Rules on Electronic Evidence, and other applicable business laws. Fifth, they should actively engage with institutions such as the Department of Trade and Industry (DTI), Local Government Units (LGUs), the Securities and Exchange Commission (SEC), the Integrated Bar of the Philippines (IBP), and other relevant organizations for guidance and assistance when legal issues arise. Finally, business owners should regularly review and improve their contracting practices, update contract templates, refine documentation procedures, and apply lessons learned from previous disputes. Overall, the framework emphasizes that legal risk management should become an integral part of daily business operations, enabling sole proprietorships to enhance contractual security, strengthen business relationships, and achieve long-term sustainability (Mina et al., 2020).

## IV. CONCLUSION

The study found that sole proprietorships in Aurora Province frequently relied on informal business agreements because of their convenience, flexibility, and trust-based nature. However, this practice was significantly associated with greater legal risk exposure, including contractual misunderstandings, payment disputes, financial losses, and enforcement difficulties. Although respondents demonstrated moderate legal awareness and perceived moderate institutional support, neither legal awareness nor institutional support significantly mediated or moderated the relationship between reliance on informal agreements and legal risk exposure. These findings indicate that legal risks are primarily influenced by informal contracting practices rather than by entrepreneurs' legal knowledge or perceived institutional assistance. The study therefore highlights the importance of promoting written contracts, proper documentation, preservation of digital evidence, and accessible legal support to minimize contractual risks. It also contributes empirical evidence from a rural Philippine context and provides a basis for developing policies, legal education programs, and business support initiatives that strengthen contract management practices and reduce legal risks among sole proprietorships in Aurora Province.

## V. RECOMMENDATIONS

Based on the findings and conclusions of the study, it is recommended that sole proprietors adopt simple written contracts, clearly define the terms and conditions of their business transactions, and preserve digital records such as receipts, emails, and chat messages to reduce legal risks and strengthen the enforceability of agreements. Government agencies, particularly the Department of Trade and Industry (DTI), the Integrated Bar of the Philippines (IBP), and Local Government Units (LGUs), should conduct regular legal literacy programs, contract-writing workshops, legal consultation services, and provide standardized contract templates for small businesses. Educational institutions should enhance instruction and extension programs on contract management, legal risk management, digital evidence, and business compliance to better prepare current and aspiring entrepreneurs. Likewise, business development organizations, including Negosyo Centers, chambers of commerce, cooperatives, and MSME support groups, should integrate legal risk management, contract documentation, and digital record-keeping into their entrepreneurship development initiatives. Policymakers should strengthen access to legal advisory services and incorporate legal risk management into MSME development policies. Finally, future researchers are encouraged to validate the findings in other settings and assess the effectiveness of the proposed Legal Risk Management Framework through intervention or longitudinal studies.

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