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**THEORETICAL**

**A Theoretical Framework for Business Environment Diagnostics and Institutional Governance in the Democratic Republic of Congo (2000–2026)**

**Olivier Kalala<sup>1</sup>|Jean-Paul Kabasele<sup>2</sup>|Mireille Ntumba<sup>3,4</sup>**

<sup>1</sup> Department of Interdisciplinary Studies, Official University of Mbuji-Mayi

<sup>2</sup> Department of Advanced Studies, Official University of Mbuji-Mayi

<sup>3</sup> Université Catholique du Congo

<sup>4</sup> Department of Interdisciplinary Studies, Université de Kisangani

**Correspondence:** [okalala@aol.com](mailto:okalala@aol.com)

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**ABSTRACT**

The persistent underperformance of the formal private sector in the Democratic Republic of Congo is widely attributed to a complex and adverse business environment. Existing diagnostic models often fail to integrate the nation's unique institutional voids and the behavioural responses of economic agents to weak governance. This article develops a novel theoretical framework to diagnose the Congolese business environment and model the recursive relationship between institutional governance and firm-level strategic behaviour. It aims to provide a structured analytical tool for researchers and policymakers. The framework is constructed through theoretical synthesis, integrating principles from institutional economics, behavioural finance, and political economy. It employs a systems-thinking approach to map causal linkages between macro-level governance indicators and micro-level decision-making heuristics. The framework posits that a dominant theme of strategic informality, estimated to characterise over 60% of economic activity, is a rational behavioural adaptation to predatory regulatory enforcement and property rights insecurity, which in turn perpetuates institutional stagnation. The proposed framework elucidates the self-reinforcing cycle of weak governance and defensive firm strategies, offering a more nuanced explanation for the country's protracted business climate challenges than linear diagnostic models. Future empirical research should apply this framework to test its diagnostic propositions. Policymakers should design interventions that simultaneously target specific governance failures and the behavioural incentives for informality. institutional governance, business environment, diagnostic framework, behavioural finance, informal economy, Democratic Republic of Congo This paper provides the first integrated theoretical model explicitly linking institutional diagnostics with behavioural finance concepts to analyse the Congolese private sector, introducing a novel policy mechanism focused on breaking the informality-governance paradox.

**Keywords:** *Institutional theory, Business environment, Sub-Saharan Africa, Resource-based view, Corporate governance, Political economy, Diagnostic framework*

**Article Highlights**

- Integrates institutional economics, behavioural finance, and political economy into a novel diagnostic model.

**Core Proposition**

The framework elucidates the recursive relationship between institutional governance failures and defensive firm

- Maps causal linkages between macro governance indicators and micro-level firm decision-making.
- Posits strategic informality as a rational adaptation to weak governance, creating a self-reinforcing cycle.
- Provides a structured analytical tool for researchers and policymakers to break the informality-governance paradox.

strategies, offering a nuanced alternative to linear diagnostic models.

*This paper presents a theoretical model; future empirical research is needed to test its diagnostic propositions.*

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