



Corruption and Informality in Business in Serbia and Croatia

Dissertation

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List of Tables

Table 1: Constituent articles of the dissertation.

List of Acronyms

B2B – business to business

B2G – business to government

CA – Cronbach's alpha coefficient

CEE – Central and Eastern Europe

CFA – Confirmatory factor analysis

CPI – Corruption Perception Index

DFG – Deutsche Forschungsgemeinschaft

EFA – Exploratory factor analysis

EU – European Union

GDP – Gross domestic product

HDZ – Croatian Democratic Union (*Hrvatska demokratska zajednica*)

ICT – Information and communication technology

ICTY – International Criminal Tribunal for the former Yugoslavia

IMF – International Monetary Fund

IT – Information technology

KPH – Communist Party of Croatia (*Komunistička partija Hrvatske*)

L2 – Euclidean distance

NGOs – Non-governmental organizations

NUTS – Nomenclature of territorial units for statistics

OECD – Organisation for Economic Co-operation and Development

PhD – Doctorate of Philosophy

SMEs – Small and medium-sized enterprises

UNODC – United Nations Office on Drugs and Crime

USKOK - Office for the Suppression of Corruption and Organised Crime (*Ured za suzbijanje korupcije i organiziranog kriminaliteta*)

WEF – World Economic Forum

WSM – Workers' self-management

WWII – World War II

1 Introduction

This PhD project is a part of an interdisciplinary, by Deutsche Forschungsgemeinschaft (DFG) funded, research project ‘From informality to corruption (1817-2018): Serbia and Croatia in comparison’.¹ The main objective of this joint project is to identify the sources of corruption in these societies, and to determine what difficulties of fighting corruption in the region are from a historical long-term perspective. Since most of the research on corruption does not take a diachronic perspective, this project focuses on the contrary on a historical overview because the understanding of and dealing with corruption is closely related to the development of values in a society (Engels 2014) and to the ongoing constellations of social power in the given societies (Hofstede 2011). To observe these aspects in Southeast Europe is at the same time challenging, but also academically rewarding, due to the many historical ruptures in the region, and due to their formative power (for example the collapse of states, formation of new ones, the abundance of different political systems throughout the recent history, etc.).

The tasks of this DFG-funded project are divided to three different interdisciplinary groups. Since the focus is put on the long-term developments that also must be reconstructed through archival work, historiography plays an important role (sub-project 1). Similarly, in order to explore the long-term changes in the understanding of corruption, the project integrated a linguistic sub-project 2 that analyses semantic changes in the word field of corruption. Lastly, the contemporary sub-project 3, the project of this dissertation, is oriented towards research of corruption in business and management, because post-socialism, in contrast to the previous epochs, is characterized by a withdrawal of the state from the economy and society, and privatization is the defining phenomenon that shaped the current outcomes. Thus, the interdisciplinarity is not an end in itself, but a platform for obtaining more coherent and comprehensive investigation of the phenomena of corruption and informality.

1.1 Research Motivation

This PhD project is focused on the study of corruption in the Serbian and Croatian economy, in private sector, with special attention to the role of companies and their management. The motivation for this study was to provide insights and information about the content and characteristics of the phenomena of corruption and informality, and how these are dealt with

¹ For more information: Regensburg Corruption Cluster, <https://informalityregensburg.com/>.

by the central actors in the economic systems of both countries. This research project relies on the non-essentialist understanding of corruption and informality. This means that corruption is not examined as a definite practice, as it is described in the international ‘anti-corruption industry’ (Buchenau et al. 2022), nor is it viewed as a certain arrangement of actors, as it is explained by the principal-agent theory (Styckow 2002). Instead, the author evaluates the context in which different relationships and practices are recognized as corruption and informality. This approach enables the author to trail both the historical changes in the understanding of corruption in Serbia and Croatia, and the current constellation of relationships that tend to allow for corruption and informality to (re)emerge.

1.2 Focal Region: Serbia and Croatia

This research focuses on Serbia and Croatia, two countries that have shared history, but different political paths in the 21st century. Both countries were ruled by large empires, and only in the 19th (Serbia) and 20th century (Croatia) managed to gain independence. Throughout the modern history, both countries were positioned in the European periphery, being policy-takers, rather than policymakers. This changed with the formation of Yugoslavia, when Serbia and Croatia became parts of a big federation that stood between the East and West, playing the role of the interlocutor and a buffer during the Cold War.

Economic policies implemented at that time by the Yugoslav leadership mirrored the geopolitical position of the country - Yugoslavia adopted a decentralized economic system known as self-management of workers, which was based to a large extent, on market mechanisms (‘market socialism’) (Uvalić 2018). As such, Yugoslav system differed greatly from East Bloc type of the command economy, and at the same time it deviated from the typical market economy as it was present in the Western Europe. The unique for Yugoslavia, the workers’ self-management principle relied on the existence of ‘socially owned’ enterprises that stood against the standard forms of state ownership (Soulsby and Clark 2007). Yugoslavia in fact introduced some market-oriented economic reforms from early on, and as such very much differed from the other socialist countries in Central and Eastern Europe (CEE). Beginning the 1950s, the aforementioned self-management system was initiated, together with opening to the Western world for purpose of political and economic exchange. Following these reforms, the Yugoslav leadership introduced in the 1970s a gradual decentralization of the economy (Uvalic 2012). However, several of the central characteristics of communist command economic

system stayed in place and were not discarded until late 1980s: mainly limitations to private property ownership and 'state paternalism' (Kornai 1980).

The fall of the Berlin Wall signified the beginning of transformation of the world. The communism proved to be an unsuccessful political ideology and the year of 1989, *annus mirabilis*, marked an emergence of liberal economy in the countries of the Eastern Europe. The transformation to liberal democracies went relatively smoothly for most of the Eastern European countries, without major domestic turbulences. On the other hand, the Western Balkan countries had a different developmental path. The transformation itself began in 1990, when the first multi-party elections were organized in Yugoslavia. This led to emergence of nationalism that shortly after generated open conflicts. The time of wars and instability in the Western Balkans left mark on these states' economy. Contrary to the CEE's successful transformation from a command to a market economy, the Western Balkan countries failed to modernize and to reform in a timely manner due to political instability. In addition, due to the wars and destruction, the infrastructure necessary for economic activity in some of the war-stricken countries, like Croatia, Bosnia and Herzegovina, and Serbia, was almost destroyed. Secondly, because of the conflicts, the investors from the European Union, and from the other developed countries, bypassed the Western Balkans for 10 years choosing more stable markets to invest in. This all occurred in a region that was already underdeveloped (Uvalic 2012).

Nevertheless, in the 2000s, the political paths of Serbia and Croatia started to differ. The European integration process went much more efficiently and swiftly in Croatia, and as a result of this this country joined the European Union in 2013 and the Eurozone in 2023. Serbia, on the other hand, is still in the process of negotiating the EU accession, which from the looks of it, will still take many years to complete (European Commission 2022). Given these aspects, Croatia is a part of the European common market, while Serbia is not. Croatia profits from the EU funds, but it is also being scrutinized by the EU institutions, which Serbia is not. These features inevitably impact the public policies.

However, taking all the differences into account, Serbia and Croatia do in fact share the following similarities that were shaped by the historical and political context before and during the last 30 years of system transformation:

1. Significant corruption levels and the existence of organized crime (Kmezić and Atanasijević 2019).
2. The existence and continuation of the neo-patrimonial political condition, which is reflected in the dominance of a small group of political and business elites who have little desire to alter the current order, which is supported by extensive informal clientelist and nepotistic networks (Šimić Banović 2015; Beqiri 2020).
3. Ineffective legal instruments and anti-corruption laws (Šimić Banović 2015).

Hence, researchers are obligated by all these characteristics of (post)transition in Serbia and Croatia to further investigate the phenomena of corruption and informality because they have not previously received appropriate attention or have been primarily studied from the perspective of the public sector (e.g., UNODC 2011; Petrović, Đorđević and Savković 2013; Vasiljević-Prodanović 2015; Begović et al. 2002; Pešić 2007; Gredelj 2007; Begović, Mijatović and Hiber 2004; Štulhofer 2004; Štulhofer et al. 2007; Budak and Rajh 2012; etc.).

1.3 Corruption and Informality

In this dissertation the phenomena of corruption and informality are not observed as separate entities that exist independently of one another. On the contrary, the author's approach was to treat corruption as one of many aspects of informality. More precisely, corruption is a practice that exists informally, is rooted in informal institutions, and is carried out via informal networks, and thus can be seen as a component of informality. Being the most controversial due to its detrimental effects on society, corruption is the main informal practice studied by this PhD, albeit not the only one. Therefore, the decision to name both phenomena in the title of this PhD research refers to the ambition of identifying and examining the related informal practices as well.

Every society on the planet exists and operates on the basis of some degree of informality, which is an integral component of social life and without it the societies would not be able to function as we know it. Informal practices are thus identified as unwritten rules that help the people to get by and to resolve potential societal conflicts (Polese 2021). Following this definition, corruption is an informal practice that is used to 'grease the wheels' and to obtain private gain, on the detriment of the public (World Bank 2021).

Depending on local populace's level of trust and dependence on formal institutions, informality can serve as an addition to or as a replacement for them in the form of informal institutions (Efendić, Pugh, and Adnett 2011). Informal institutions present all tacitly established patterns of behavior in a given society (Azari and Smith 2012; Lauth 2015). When discussing the region of Southeast Europe, as it is the case in this PhD project, the research has shown that business networks and connections are just as significant as the institutional framework that is subject to government regulation (Šimić Banović 2015). The public and private domains are not clearly divided in these societies; rather, they typically overlap (Baez-Camargo and Ledeneva 2017).

Finally, according to empirical research, informal networking is more common in systems that are institutionally dysfunctional. Establishment of informal institutions and informal relations, which sometime deviate into realm of corruption, is primarily a response to formal institution failures and faulty economic policies (Efendić, Pugh and Adnett 2011; Pasovic and Efendić 2018).

1.4 Corruption in Business

Even though it is widely discussed in the media and being used as a popular trope by political elites, corruption in business in Southeast Europe did not receive sufficient attention from the academia. This is comprehensibly due to the difficulty of data collecting. There is only a handful of academic works focusing on corruption in private sector: corruption experiences of businesspersons in relations with public officials (Begović and Mijatović (eds) 2001; 2007); bribery in private sector (Vuković 2002); the role of institutional environment in doing business (Džunić and Golubović 2018); effects of corruption on the establishment of new businesses in Serbia (Ivanović-Djukić et al. 2019); businesspeople's perspective on corruption in business sector and in dealings with governments in the Western Balkans countries (Budak and Rajh 2014); corruption perceptions of managers in three countries, Croatia, Serbia, and Slovenia (Botrić 2020). Hence, the existing literature predominantly examined views of businesspeople on corruption in relation to public officials and activities relating to the state bureaucracy and were focused on the whole private sector, independent of the firm size. Informal practices and corruption in everyday business remained largely unexplored. Also, there is a lack of adequate research on the issue of corruption in business (Van Duyne, Stocco and Milenović 2009).

Therefore, the main objective of this dissertation is to investigate corruption and informal practices in Serbian and Croatian business. More accurately, the goal is to explore these

phenomena as they occur between business actors, within companies' management and between business actors and public bodies' officials. This PhD project will thus fill the research gap by exploring the business to business (B2B) and business to government (B2G) aspects of corruption and informality among businesspeople in Serbia and Croatia.

1.5 Informality in Business

This dissertation further explores the phenomenon of informality, or informal practices, in business as it is an important feature in doing business in Southeast Europe (Efendic and Ledeneva 2020). As such, informality is not necessarily a cultural phenomenon reticent for this particular part of Europe, since it exists in every society around the Globe (e.g., Christiansen and Neuhold 2012). Being a global phenomenon that punctures through the very tissue of society, informality is often viewed as conditioned by history. Therefore, the today's presence of informality tends to be explained by the following factors: economic underdevelopment and cultural backwardness, colonialism/foreign rule, armed conflicts, communism, and transition (Petrovic 2008; Stulhofer et al. 2008). Even though these historical factors should not be underestimated, the most recent studies suggest that the main reason for the presence of informality is the continuous (historical) economic underdevelopment of the economic periphery (Cieřlik and Goczek 2018; Uberti 2018). Regarding Serbia and Croatia, informality was always present to some extent, with the difference being that the transition period reinforced the informal ties due to the political and economic instability that accompanied transition (Efendic and Ledeneva 2020). Pejovich describes these informal ties as a set of tradition, mores, values, or religious beliefs that emerge spontaneously in times of social ruptures (2008). These primary social ties and networks can survive the test of time, and as such can become interconnectors between generations and a glue that holds the society together during the times of crisis.

For all those engaging in business activities, there are particular local rules and obligations to be followed. These obligations and code of conduct stem from both formal and informal institutional setting. These formal and informal institutions at the same time influence businesspeople's both behaviours and opinions, and as such either limit or boost business activities (North 1990). In practice, informal institutions are frequently seen as threats to efficiency, legal clarity (and legality), and competition, whereas formal institutions are thought to lessen ambiguity and dangers in doing business (Welter and Smallbone 2011; Smallbone and Welter 2012). However, in times of disruption like transition and/or conflict, informal

institutions can also take the place of absent formal institutions or act as a supplement to underperforming formal institutions (Gordy and Efendic 2019; Horak et al. 2020; Ledeneva and Efendic 2022). Although informality may play a beneficial role in the early phases of transition, in the long run it could lead to the following problems:

1. It could breed corruption and clientelism, which pose serious obstacles to the establishment of an effective governmental structure (Rose-Ackerman 1999; Haber, Maurer and Razo 2002);
2. 'Business capture' of the state (Bartlett 2021);
3. The increased transaction costs for economic exchanges and hinderance to the wealth creation (Pejovich 2003; Williams and Franic 2016).
4. Creation of unfair competition where contacts to political elites permit lax law enforcement and corruption, which is harmful to both other businesspeople and consumers (Krasniqi and Desai 2016; Rajwani and Liedong 2015).

Despite political and bureaucratic efforts to 'formalize' informality, conflict and complementarity between formal and informal institutions continue and persist in post-communist nations, Serbia and Croatia included (Šimić Banović 2015). Those who engage in corrupt and informal enterprises have less trust in official institutions and perceive higher degrees of corruption in their society (Wallace and Latcheva 2006). As a result, working outside the law creates a vicious spiral in which faith in state institutions falls and 'opportunity' for corruption expands (Vorley and Williams 2016).

1.6 Path dependency in business environment

Corruption and informality in business could also be studied through the lenses of organizational path dependency. More precisely, the path dependency concept can be applied to investigate the relationship between the structural conditions under which the companies operated (macro level) and the specific agency of individuals in positions of power (micro level). This approach is justified by the recognition that macro-level conditions (institutional, legal, political, and economic) intertwine and interact with individual practices and agencies. As a result, these interactions shape social reality (Greener 2005). Thus, the persistent factors of perpetuity in the organizational setting could be recognised by providing a context for the

interaction of micro and macro levels. This context could then explain why corruption and informality occurred and under which historical circumstances.

In the case of post-socialist countries, which are the study focus of this PhD, organizations tend to be ‘locked-in’ in their ways of doing business. This ‘lock-in’ situation fosters irrational decision-making, which can lead to less-than-optimal outcomes. Namely, the ‘lock-in’ mechanism pulls in actors and institutions in a positive feedback loop, reinforcing old structures and behaviours (Myrdal 1957), and at the same time separate, but complementary factors allow a change, albeit at different rates in different time periods, contributing to the lack of reforms (Dahrendorf 2017). This analysis is further supported by the finding that path dependence is typically set off by a critical impetus where historical events are pivotal (Sydow, Schreyögg, and Koch 2009). This can be observed in the cases of Serbia and Croatia given the importance of events like the WWII and the breakdown of Yugoslavia. Initial decisions and actions within organizations are based on earlier ‘ways of doing business’, which means that conventions and practices are a reflection of culture and tradition (Child 1997; March 1994; Tolbert and Zucker 1996). Also, since these phenomena occur in a certain time period, the historical experience and imprints have a direct bearing on organizations (Sydow, Schreyögg, and Koch 2009). Additionally, if the costs of unlocking or switching to another organizational path are too great, path dependence may also be deliberately pursued and implemented (Garud and Karnøe 2001).

1.7 Structure of the Dissertation

The early 1990s heralded a new era for the now-post-socialist countries. They were to be integrated into the global economy through the introduction of a market economy and liberal democracy. Former socialist countries battled with the problems of transferring to another system in order to effectively override this change. Corruption was identified as one of the major concerns in this environment (Kaufmann and Siegelbaum 1997). As such, international organizations of the political West oversaw the transition and for this reason engaged the academia to assess and analyse these political developments. Academic consensus – ‘anticorruption consensus’ (Bukovansky 2006) - was that corruption, which emerged from the particular combination of political vacuum, lawlessness and privatization, was the main obstacle that impeded successful transition (Mauro 1995; Ades and Di Tella 1997; Rose-

Ackerman 1997). By connecting corruption to political elites, a scientific paradigm of understanding corruption emerged (Ledeneva 2009). It postulated the following:

1. Corruption is to be defined;
2. Corruption is to be measured;
3. Corruption is to be dealt with.

However, this approach reveals a certain one-sidedness of the Western/Eurocentric macro perspective (Buchenau et al. 2022). In order to balance out this approach, this dissertation moreover relies on the conceptual ideas of Alena Ledeneva. As mentioned previously, corrupt and informal behaviors are worldwide-spread, and they evoke specific connotations depending on the region in which they play out (Ledeneva 2018). These connotations are not necessarily perceived as negative, but also tend to denote communal support system/assistance. Therefore, Ledeneva points out that, unlike the Western-centric corruption fighting logics, combatting corruption can only be successful if it takes into account the logics of the actors concerned (Ledeneva, Bratu and Köker 2017). Similarly, whereas current anticorruption efforts are predicated on the understanding of corruption as a principal-agent problem, phenomena like systemic corruption rather correspond to a collective action problem. This, in turn, leads to the failure of any anticorruption reform based on the principal-agent perspective, which assumes the presence of the so-called non-corruptible principals (Persson, Rothstein, and Teorell 2013).

In line with the mainstream ‘corruption paradigm’ (Ledeneva 2009), the international observers had expected the various reform processes in Serbia and Croatia from 2000 onward to lead to major leaps in the fight against corruption (Council of Europe 2005; OECD 2008). This however did not happen. According to the anticorruption indices, the two countries continuously show progress less than expected, despite the introduction of various anticorruption instruments (Transparency International 2021; WEF 2018; Eurobarometer 2022). Yet, these rankings are limited in their explanatory power, and it is therefore indispensable to dig deeper to explain the persistence of informality and corruption in the two countries. In particular, this requires the deliberate inclusion or more in-depth analysis of the perspective of the subjects concerned - the economic actors. Compared to the international corruption indices, which are partly based on interviews and perceptions of business people, this research goes further: by focusing on a small number of cases (scandals) and field research

on the ground (surveys, analysis of press materials, court records, etc.), this dissertation seeks to build up more knowledge and to deliver substantial, in-depth and differentiated results.

The beginning of 2000s the researchers focusing on the Western Balkans also engaged in the research of corruption, as the academic trend and the ‘corruption paradigm’ took root in this part of the world as well. Their focus, as mentioned previously, was put on the role of the formal state institutions in corruption and informal practices (Buchenau et al. 2022). The general scientific conclusion was that the corruption starts and ends with political and bureaucratic elites, while the other segments of society, such as private sector, are not the ones creating corrupt environment, but that the blame could only be put on the political structures (Budak 2007; Budak and Rajh 2014).

1.7.1 Research Focus

Following the theoretical framework, as explained in the previous subchapter, and with the goal of grasping the entirety of the researched topics that are entrenched in the context, the research questions focus on the main actors involved – the private sector. For this reason, the research questions are formulated as follows:

- How do company owners and managers perceive corruption in business, and more specifically in business-to-business (B2B) and business-to-government (B2G) interactions?
- What are the most pertinent manifestations of informal activities in both B2B and B2G interactions?
- What forms of informal practices and behaviors are accepted and tolerated in business?
- What context allows for the informality to occur in business dealings and relations?
- What are the most common opinions and attitudes of business owners and managers regarding corruption- and institution-related obstacles for business activity (in terms of institutions, regulations, crime, and corruption)?
- What level of trust do Serbian and Croatian businesspeople have in state institutions?
- What role does EU membership play in reducing corruption and informality?
- How do corruption and informality affect small and medium-sized companies (SMEs) vs. large companies?

- Does the size of the company play a certain role in generating corruption and informal practices?

To answer these questions, the author developed survey for the purpose of this PhD study. The focus of the survey, which was conducted in Serbia and Croatia, are B2G and B2B manifestations of corrupt and informal activities. Given the research's intended audience, it was critical to survey active participants in the field of study (in this case, the business environment), because the attitudes and circumstances of businesspeople shape their perception of corruption beyond what can be rationalized by personal experience with corruption (Gutmann, Padovano and Voigt 2019).

The second important aspect when researching perceptions of corruption and informality, was to investigate the relationship the economic actors have with the state institutions. This was important as it can indicate the readiness and propensity to respect or to cheat the state (Wallace and Latcheva 2006). Namely, increased engagement in the corrupt and informal activities is linked to a loss of faith in public institutions as well as an increased sense of corruption. As a result, it is hypothesized that economic activities that occur "outside the law" could contribute to a decrease in trust in the state, creating a self-fulfilling prophecy (Vorley and Williams 2016).

For the purpose of clarity, the clustering approach was chosen as the best way to find the commonalities in those groups that share opinions on the questions above. That way, the answers given could portray the profile of those businesspeople that are more or less inclined to accept and participate in the corrupt and/or informal activities.

Furthermore, as this dissertation is multi-faceted, the research questions focusing on the research of scandals are the following:

- What differences and similarities can be observed in the alleged abuses committed by the two managers from Agrokombinat and Agrokor?
- What were their relations to the political elites?
- Can the patterns of path dependence be identified on the example of two related companies, during the stabilization periods after the two very different ruptures, namely WWII and the 1990s Yugoslav wars?

These questions probe into the institutional continuities in two different time periods/political systems and two different companies, Agrokombinat and Agrokor. In order to answer the research questions and to investigate the relationship between structural macro-conditions in which the companies were operating and specific agency of individuals in positions of power, this paper relies on the path dependency theoretical concept. This approach was chosen as fitting due to the fact that macro-level conditions interconnect and interact with actions of individuals (Sydow, Schreyögg, and Koch 2009). As a result, these interactions shape social reality (Greener 2005). Finally, this study intends to disclose the persistent factors of perpetuity in the organizational environment by giving a context for the interaction of micro and macro levels.

1.7.2 Methodological Approach

Given the topics of this research - complexity of corruption and informality phenomena, and their dependence on the context, as well as the focus on two different countries, a cumulative mixed-method approach was chosen for this dissertation. Cumulative approach was chosen as it is more fitting than monographic one: the first two papers are based on quantitative research method, while the third one is based on qualitative. Therefore, to be able to compile evidence that are novel and informative, the author decided to take different methodological approach in each paper.

For the first two papers the author collected data extracted from two surveys, specially designed for this research project. The surveys were created in the form of questionnaire that contained open questions and questions with the Likert scale, aimed at business owners and company managers operating in Serbia and Croatia. As a first step of the analysis of the data collected, the respondents were clustered in several groups based on their expressed opinions on corrupt and informal behaviors and situations. The following variables, which came from the theoretical and literature review, served as the basis for the clustering: (1) Trust in institutions (TRUST); (2) Inspections as a hindrance for business (INSP); (3) Regulation as a hindrance for business (REG); (4) Crime as an obstacle for business (CRIME); (5) SMEs are more negatively impacted by corruption (SME); and (6) Large businesses are a root of corruption (LARGE), and in the case of the second paper, focused on Croatia, the variable (EU) that presents perception of a decline, or non-decline, in corruption after Croatia joined the EU. After this, the characteristics and variations between the identified clusters according to the respondents' firm characteristics were analyzed, as well as clusters' opinions and attitudes

towards corrupt and informal behaviors, and clusters' position towards state institutions (perception of institutions being a hindrance to doing business or not).

In the third paper of this dissertation the author applied the qualitative research method. Both primary and secondary sources were used for the purpose of the case study. The secondary sources included earlier academic studies on Yugoslav socialism and Croatian post-independence crony capitalism. As a result, the qualitative analysis is based on a variety of media narratives, archival material, interviews with (in)direct participants in both scandals, and statements made by them, all while drawing on prior theoretical knowledge. Because the case study approach can give the necessary information about the political and economic context of the events as well as the specifics of the interactions between the actors involved (Yin 2014; Jensen and Rodgers 2001), it is especially appropriate for researching organizational development and path dependence in business setting.

Conclusively, by combining quantitative, qualitative, and case study method, the property of findings of this research could be of significant scientific value due to its in-depth nature.

1.7.3 Segmentation

This dissertation is a cumulative thesis comprising of three separate papers. For the purpose of clarity, in this section the author provides readers with a guideline on the dissertation. An overview of each article and their respective key facts will be presented in the following paragraphs, as well as in the Table 1.

Article 1, presented in Chapter 2, is titled 'Perceptions of Corruption and Informality among Businesspeople'. This article focuses on the perception of business actors actively partaking in the everyday business in Serbia. It assesses the presence and extent of corruption and informality in the private sector, more precisely in business-to-business and business-to-government interactions by using empirical evidence. The authors focus on perception of corruption, rather than on personal experience with corruption, because respondents' background can shape corruption perception beyond what could be explained by their personal experience with corruption. Based on the survey data, this research captures the perceptions of corruption of business owners and managers of SMEs and examines their attitudes towards informal, licit, or illicit, business practices. The typology of SMEs according to their opinion on corruption- and institution-related obstacles resulted in three different clusters, based on

several variables - (1) Trust in institutions (TRUST); (2) Inspections as an obstacle for business (INSP); (3) Regulation as an obstacle for business (REG); (4) Crime as an obstacle for business (CRIME); (5) SMEs are more negatively affected by corruption (SME); and (6) Large businesses are a source of corruption (LARGE). The empirical findings show that business is not hindered by regulations but with a common lack of trust in institutions, crime, and perceived corruption. SMEs are perceived as particularly affected by a negative corrupt environment, whereas large companies are seen as the source of corruption. The findings allow for the creation of lawful and incorruptible business policies, as well as ideas on preventing the common practice of illicit trading with job positions in the public sector.

Article 2, titled ‘Perceived Corruption and Informality among Croatian Businesspeople’ and presented in Chapter 3, is another quantitative study of the businesspeople’s perceptions and attitudes towards corruption and informality, albeit with the focus on Croatia. This article also uses the data obtained from a survey, which was distributed in a form of an online questionnaire. Following the same concept as the previous paper that focused on Serbia, this paper also analyses the perceptions of businesspeople by using several different variables (TRUST, INSP, REG, CRIME, SME, LARGE). Added to this list is the variable EU, where the respondents’ perception of the Croatia’s EU accession is surveyed with regards to the presence and extent of corruption and informality in the private sector. Similar to the results obtained in Serbia, Croatian businesspeople express low levels of trust in Croatian institutions, but do not perceive them as obstacles to doing business. The Croatia’s membership in the EU is perceived as insignificant in combatting corruption and informality. Again, like in Serbia, the SMEs are perceived to be suffering more due to the corruption in the private sector, whereas the large companies are seen as main generators of corruption. However, corrupt, and informal practices in everyday business are more accepted among the owners and managers working in the small and micro firms.

Article 3, from the Chapter 4, with the title ‘Informal Ties to political Elites and Path Dependency in the Croatian agro Sector: A Study of the Corruption Scandals of Agrokombinat and Agrokor’, is a case study that explores and compares two Croatian corruption scandals, the Agrokombinat scandal from the 1970s, and Agrokor scandal from the 2010s. These two companies are linked to one another: Agrokombinat served as a model for Agrokor, and the main protagonists of the two scandals, the two top managers of the companies, are father and son. This research is based on the analysis of both archival sources of internal Communist Party

documents, from the Croatian State Archive, and the public corruption narrativizations of the scandals from the media. The findings show that these scandals, which took place in two distinct periods, display a set of permanent sociocultural patterns of behaviour and ‘ways of doing business’ that are incompatible with the liberal rules-based framework. A continual lack of separation between business and politics, as well as subordination of institutions to the political apparatus, meant that a ‘strong capable man’ cult kept emerging as a solution for different crises. We also observed a permeance of (economic) nationalism as a justifier for cronyism and worker exploitation. These results show that the establishment of a rules-based economic order on a global level can be professed nominally by local actors but undermined locally by corrupt leaders.

In the following chapters, these three articles will be presented in their entirety. To increase the clarity and readability, each article will be immediately followed by respective references and the accompanying appendices. Due to the different scientific journals in which these articles are published, each of them has different properties in terms of format, referencing style and literature display. Also, tables and figures in the articles in Chapters 2 and 3 follow the articles’ structure and are thus to be independently observed.

In Chapter 5 of this dissertation the author will give concluding remarks, which refer to the main topics and overarching questions of the whole dissertation. By summarizing the findings, this dissertation offers suggestions for policy measures that can be adopted by both private and public bodies, as well as theoretical contributions. Finally, limitations of this research together with the avenues for future research will be addressed.

Table 1: Constituent articles of the dissertation.

	Article 1 (Chapter 2)	Article 2 (Chapter 3)	Article 3 (Chapter 4)
Title	Perceptions of Corruption and Informality Among Businesspeople	Perceived Corruption and Informality among Croatian Businesspeople	Informal Ties to political Elites and Path Dependency in the Croatian agro Sector: a Study of the Corruption Scandals of Agrokombinat and Agrokor
Authors	<ul style="list-style-type: none"> ▪ Barbara Frey ▪ Bruno Škrinjarić, Institute of 	<ul style="list-style-type: none"> ▪ Barbara Frey ▪ Bruno Škrinjarić, Institute of 	<ul style="list-style-type: none"> ▪ Barbara Frey ▪ Miloš Lecić, University of Regensburg

	Economics, Zagreb Croatia ▪ Jelena Budak, Institute of Economics, Zagreb Croatia	Economics, Zagreb Croatia ▪ Jelena Budak, Institute of Economics, Zagreb Croatia	
Method	Quantitative analysis	Quantitative analysis	Multiple Case Study
Data	Survey (online questionnaire)	Survey (online questionnaire)	<ul style="list-style-type: none"> ▪ Collection of archival material ▪ Collection of media narrativization ▪ Interviews and statements of (in)direct participants
Country Context	Serbia	Croatia	Yugoslavia, Croatia
Journal	South East European Journal of Economics and Business	Journal of East European Management Studies	Management & Organizational History
Current Status	Published: Frey, B., Škrinjarić, B. and Budak, J. 2022. Perceptions of Corruption and Informality Among Businesspeople. South East European Journal of Economics and Business, vol. 17, no. 2, pp. 49-66. (DOI: https://doi.org/10.2478/jeb-2022-0014)	Accepted (to be published in January 2024)	Published: Frey, B. and Lecić, M. 2022. Informal Ties to political Elites and Path Dependency in the Croatian Agro Sector: A Study of the Corruption Scandals of Agrokombinat and Agrokor. Management & Organizational History, vol. 18, no. 2, pp. 151-172. (DOI: 10.1080/17449359.2023.2187420)

2 Perceptions of Corruption and Informality Among Businesspeople

2.1 Introduction

Serbia is regarded as a country with high levels of corruption in all spheres of public life. Corruption is thought to be omnipresent in politics, administration, and in business. According to the 2020 Corruption Perception Index (CPI), with a score of 38 out of 100 (score 100 denoting the least corrupt country) Serbia was placed high on the list of countries with

widespread corruption (Transparency International 2021). Moreover, the perceived levels of corruption in Serbia did not change much in the last 10 years.

The previously installed anti-corruption policies in Serbia were completely or partially inapt to truly combat corruption, especially in the private sector (van Duyne 2013). In addition, the anti-corruption agenda in the transition societies focused mostly on the formal institutions and not on the informal ones, which left the traditional social networks intact (Williams and Vorley 2015). These informal networks were established during socialism, and later during the 1990s conflicts and consequent recessions in the Balkan, as a substitute and/or as a complementary to formal institutions, which more often than not failed to regulate everyday life (Tonoyan et al. 2010; Estrin and Prevezer 2011). As such, informal institutions could not be qualified as negative or positive, but in those places where they would obstruct the implementation and adoption of new formal rules, they could be considered as problematic. Therefore, corruption and informal practices remain perceived as perpetual and as inseparable from political and economic life in Serbia (Resimić 2022). Given the historical circumstances, in particular the 1990s conflicts in the region, coupled with the socialist heritage in economic and political systems, and given its present efforts to join the European Union, Serbia presents a fine example of a transition economy in the EU accession process.

Corruption and informality in business are research topics that have previously received less attention among scholars when compared with the research on corruption in politics and government, especially in Southeast Europe. Further, the existing research was focused on corruption and large companies or 'big businesses' (Round and Williams 2010). Recently, a significant contribution was made by Efendić and Ledeneva in exploring and understanding informal institutions and informal networking and the costs of it for individuals in Southeast Europe (SEE) (2020; 2021; 2022), as well by Williams and Efendić (2021), however in relation to informal and undeclared employment. Nevertheless, in order to advance and deepen the understanding of everyday corruption and informality in business in a country like Serbia, it is necessary to explore and analyze the perceptions of the relevant stakeholders – businesspeople, who own informed views on the reality in which they partake. Individuals' opinions and their background characteristics shape corruption perception beyond what could be explained by their personal experience of corruption (Gutmann, Padovano and Voigt 2019).

The present study assesses private corruption in business-to-business (B2B) and business-to-government (B2G) interactions by using empirical evidence from Serbia. It aims to contribute to contemporary research on issues of corruption and informality in business in the following ways. Firstly, this research captures the perceptions of corruption of relevant

business actors – business owners and high-level managers of small and medium enterprises (SMEs), which stand as the main wealth generators and the biggest employers in Serbia (OECD 2022). Secondly, the empirical research isolates the most pertinent manifestations of informal activities and describes the context that causes the informality to occur. Thirdly, this study is the first of its kind to collect and evaluate data on private corruption in Serbia between businesses, hence adding to the literature on the B2B type of corruption in the SEE region. Finally, clustering the surveyed firms according to the opinions and attitudes of their owners and managers regarding corruption- and institutional-related obstacles for business offers more in-depth insight into the problem and evidence-based ground for deriving policy measures.

After the introduction, this paper examines the theoretical framework and institutional context around the concept of corruption and informality in the private sector. Further, an overview of the literature is laid down to spot the research gaps and point out the existing findings that relate to this research. Then, the methodology and the survey data are explained. The cluster analysis and descriptive statistics results are discussed in order to identify the particular groups within the business population that share similar attitudes. The conclusion offers ideas for future research in this domain.

2.2 Research Framework and Literature Review

2.2.1 Theoretical framework

Corruption is a varied phenomenon, dependent on cultural and situational interpretations. Definitions used by scholars are usually broad, exactly due to the elusiveness and lack of universality. The most used definition, coined by the World Bank (2021), is that corruption is the abuse of public power for private gain. As pointed out by Cuervo-Cazzura (2016), this short and broad definition is well-suited for analyzing corruption beyond the public sector because the potential costs of this abuse would become a burden of the whole group (organization, company) rather than to be borne by the one individual. This critical point is the main argument why corruption is seen as predominantly harmful to organizations, and thus to society.

Following this definition, one can differentiate between public and private corruption. While public corruption can be defined as an illegal activity where public officials misuse office for private gains, private corruption is the type of corruption that occurs when a manager, or any employee with power, acts contrary to the duties and obligations of the position he or she occupies. Private corruption, or corporate corruption (Castro, Phillips and Ansari 2020), thus occurs when managers, or any decision makers within a company, take actions for their

personal benefit, to the detriment of the whole organization (Argandoña 2003). Likewise, they could misuse their authority not only for themselves but also for the organizational gain (Ashforth and Anand 2003). These illegal actions and activities may include, but are not limited to, “bribery, fraud, financial crime, abuse, falsification, favoritism, nepotism, manipulation, etc.” (Bahoo, Alon and Paltrinieri 2020, p. 2). Despite labeling the forms of private corruption, evidence shows that individuals have difficulties in identifying private corruption as their perceptions usually depend only on their own experiences and ethical judgments (Gopinath 2008; Burduja and Zacharia 2019). Due to the nature of the managerial offenses, private corruption is often viewed and analyzed as a white-collar crime (Cuervo-Cazurra 2016), and unlike public corruption, private corruption is typically considered a company’s internal problem that should be dealt with within the company (Argandoña 2003). Having said that, these two types of corruption frequently intertwine as private businesses are often a supply side in dealings with governments. Therefore, private corruption may exist within one company, or between two separate companies, or between a company and a public body (Cuervo-Cazurra 2016).

Comparably, Burduja and Zacharia (2019) differ between B2B corruption and B2G corruption. Yet, it is not entirely clear if the B2B corruption is as damaging to society as the B2G corruption is. Namely, the B2B corruption does not abuse public office, nor does it directly affect the society and general population. However, both Argandoña (2003) and Burduja and Zacharia (2019) argue that B2B corruption is harmful because the corrupt behaviors carry reputational and legal risks that can seriously damage the company, and thus its employees. Moreover, B2B corruption undermines the free-market rules and disrupts the competition. Sööt et al. (2016) point out that unethical behaviors lead to lower quality and higher prices of goods and services, as well as to potential environmental and health risks. These potential effects of B2B corruption, therefore, influence the entire society, which leads to the conclusion that B2B corruption is in fact a destructive phenomenon on a societal level.

But can corruption be of use to those doing business? Is corruption perceived as “grease in the wheels” or “sand in the wheels”? Literature provides evidence that both claims could be true, depending on the context. However, the majority of scholars agree that corruption has adverse effects on private businesses. Mauro (1997), for example, provides evidence that corruption diminishes willingness to invest, while Kaufmann (1997) argues that corruption causes additional economic costs that otherwise would not be necessary. Nonetheless, certain scholars argue that corruption can benefit businesspeople and their businesses, especially in those countries with weak administrative apparatus. These benefits present themselves mainly

as shortcuts to overcome administrative and bureaucratic difficulties more efficiently (Méon and Sekkat 2005; Mendoza, Lim and Lopez 2015). The inefficient administrations create private and public deadweight losses and corruption then works as a market correction measure (Tonoyan et al. 2010). In some cases, larger companies with little competition and more resources also tend to view corruption as more favorable than smaller firms do (Sahakyan and Stiegert 2012). So, the size and firm's market position also play a role when it comes to perceiving corruption as favorable to business. However, more recent studies show evidence that corruption never actually helps businesses, it just makes less damage in those business climates that were not favorable for economic growth in the first place (Dutta and Sobel 2016).

There are many political and societal factors that influence the perception of the role of corruption and informality in doing business. While some countries may have inefficient administrative apparatus, businesspeople may still choose not to engage in corrupt and informal activities because of countries' cultural and societal contexts (Chavance 2008). Thus, to perceive corruption and informal practices as grease in the wheels, the inefficiency of the state must be coupled with other factors, such as the existence of strong informal networks, like elaborated kinships and mafia (Tanzi 1994). Additionally, corporate culture and high cultural esteem for money and success can lead to corrupt behaviors, especially in those environments where regulation is lacking, and conditions are competitive or constrained (Passas 1990; Vaughan 1983). In these circumstances, corrupt behaviors are hence not perceived as deviant or illicit, but rather as "innovation" or "non-conformity" to the situation (Passas 1990). Furthermore, businesspeople may be ambivalent towards corruption and perceive it simultaneously as both good and bad, depending on the situation (Denisova-Schmidt and Prytula 2018; Ledeneva and Efendić 2022 for SEE). Hence, when discussing corruption and business, the outside factors need to be considered – political, societal, and cultural (Lambsdorff 2007), and the context needs to be interpreted as well (Marquette and Peiffer 2015).

Moreover, it is exactly the context that establishes the differentiation between corruption and informality in business dealings. Informality is an essential part of social life, present in all societies across the globe (Polese, Morris and Kovacs 2016). It exists as a supplement or substitute to formal rules and institutions, depending on the (lack of) confidence and reliance on the formal institutions (Efendić, Pugh and Adnett 2011). In relation-based societies, which operate on a high-context basis, business networks and connections are as important as the institutional framework regulated by governments (Šimić Banović 2015). In these societies, the public and private spheres are not distinctively separated, but in fact, they

usually intertwine (Baez-Camargo and Ledeneva 2017). Thus, in Serbia, and in other countries of the former Yugoslavia, where in-group relations create the business context, informal practices are a regular occurrence, particularly among businesspeople (Efendić and Ledeneva 2020). Empirical research has shown that informal networking is predominantly present in institutionally impaired systems, and just like corruption, informal dealings principally serve as a remedy for failures of formal institutions and inadequate economic policies (Efendić, Pugh and Adnett 2011; Pasovic and Efendić 2018). However, these informal practices carry substantial costs in terms of time and money, which suggests they are not the best corrective solution to the faulty institutional framework (Efendić and Ledeneva 2020).

2.2.2 Institutional context and corruption in Serbia

Serbia has gone through a turbulent political and economic transition after the dissolution of the former socialist Yugoslav state. In the 1990s the newly formed country faced transition issues and additional misfortunes such as wars and international embargoes. This created an especially fertile ground for corruption (Bolčić 2014) since the business environment became lawless (Arandarenko in Krstić and Schneider 2015), with many individuals and businesses turning into a shadow (informal) economy (Andreas 2005). Furthermore, even the Serbian government itself operated in the grey zone to circumvent the international embargo. This mainly was the case with foreign trade and customs - Serbia was illegally transferring money abroad, primarily via Cyprus, to buy food, oil and arms used in the ongoing wars (“patriotic smuggling”, Antonić 2002, p. 371).

Since 1990-1991 the emergence of entrepreneurs and private owners made a deep impact on the structure of the Serbian economy (Bolčić 2003). However, given the political and economic instability, most of the privately owned companies did not significantly grow and remained small (Bolčić 1994, as cited in Trifunović 2015). Nevertheless, due to the economic isolation of the country, the local businesses played an important role in the Serbian transition (Uvalić 2001; Ristić 2004; Šabić et al. 2012).

Following the academic trends of the 1990s known as the “anti-corruption consensus” (Bukovansky 2006), or as the “corruption paradigm” (Ledeneva 2009), beginning the 2000s, there has been a surge in the literature on corruption in Serbia. However, this research on corruption perception largely focuses on the public sector and the corruption of public officials (Begović and Mijatović 2001; Ibid. 2007; Pešić 2007). Correspondingly, there are several studies that focus on citizens’ perception and experience with corruption in society in general

(e.g., UNODC 2011) or in specific sectors, e.g., police (Petrović, Đorđević and Savković 2013), healthcare (Vasiljević-Prodanović 2015), customs (Begović et al. 2002), education (Gredelj 2007) or judiciary (Begović, Mijatović and Hiber 2004). Likewise, corruption has often been examined in relation to the anti-corruption policies and administrative reforms made to fight corruption (e.g., Unijat 2006; BIRODI 2013; UNDP Serbia 2015).

On the contrary, even though it is widely discussed in the media and among Serbian political elites, corruption in Serbian business is an area that did not receive sufficient attention from scientists. This is comprehensibly due to the difficulty of data collecting. Business matters are usually kept secretive, and businesspeople are not an easy target group to be approached as they are often cautious and reserved when asked about the particularities of their dealings. Thus, there is only a limited number of studies on corruption in private business.

The first research on this topic was conducted by Begović and Mijatović (eds) (2001; 2007) exploring the corruption experiences of businesspeople in relations with public officials. Between two surveys during the five years period, corruption for the exercise of rights has decreased the most, whereas the levels of corruption for breaking the law and corruption for changing the law stagnated. Moreover, the lack of rule of law was perceived as the most important cause of corruption, which explained the businesspeople's significant lack of trust in the institutions. Another study on the bribery demands as experienced by the Serbian entrepreneurs in relation to public officials revealed that bribery of civil servants was omnipresent, and even viewed as an additional tax in every business undertaking (Vuković 2002). Relatedly, there is evidence of the importance of the institutional environment when doing business (Džunić and Golubović 2018; Dreher, Kotsogiannis and McCorrison 2009; Djankov et al. 2002). In a survey on the effects of corruption on the establishment of new businesses in Serbia, the respondents were the owners of SMEs, and 60% of them admitted to engaging in corrupt behaviors when starting a business (Ivanović-Djukić et al. 2019). In a study of businesspeople's perspectives on corruption in the business sector, as well as on the governments' role in fighting corruption in the Western Balkans (Serbia included) the results showed that businesspeople from the whole region perceive corruption as a negative phenomenon that needs to be dealt with, firstly through government-led measures and actions, but also by the actions of individuals and private organizations (Budak and Rajh 2014). Also, evidence from this study showed a correlation between viewing corruption as "greasing the wheels" and businesspeople's involvement in corruption. This finding shows that attitudes influence business behavior, as well as the other way around. Similarly, an analysis of corruption perceptions of managers in three countries, Croatia, Serbia, and Slovenia, revealed

that managers whose firms have contracts with the government, and those who are often met with petty corruption, perceive corruptive practices as a major obstacle to their business activities (Botrić 2020).

Existing literature predominantly examined views of businesspeople on corruption in relation to public officials and activities relating to the state bureaucracy and was focused on the whole private sector, independent of the firm size. Informal practices and corruption in everyday business, and among businesses themselves, remained largely unexplored. This research hence fills the gap by exploring the B2B and B2G aspects of corruption and informality among businesspeople in Serbian firms. As such, this research could (and should) have wider implications for the whole Western Balkan region in terms of understanding the business environment and potentially creating effective anti-corruption policies.

2.3 Data and Methodology

2.3.1 Questionnaire

Data were collected by conducting a survey in a form of an online questionnaire, which was administrated in the period from October 2020 until June 2021. The targeted sample was owners and managers of SMEs in Serbia. The SMEs were chosen for this study due to their importance for the Serbian economy: 99% of all enterprises in Serbia are SMEs and more than 65% of all labor force is employed in the SMEs (OECD 2022).

The questionnaire was divided into several thematic parts. In the first part, the respondents were asked about what behaviors they see as acceptable when doing business in Serbia, and what gifts between business partners are, in their opinion, a common practice. The second part consisted of questions addressing various hypothetical situations that may be construed as dubious or deviant, depending on the perception of the respondent. Respondents were offered an array of answers, ranging from being completely law-abiding to those that can be construed as corrupt, which all contain reactions to hypothetical situations. There were nuances between the presented reactions, which offer a grey zone between the two extremes. In these sections, respondents could choose from more than one answer because the hypothetical reactions and their reasons to choose a certain response may overlap. The last part of the questionnaire explored the perception of corruption, based on the Likert scale, in relation to public institutions.

2.3.2 Sample

The survey participants were chosen and contacted through personal connections of the author and through business associations. To additionally increase the sample the snowball technique (the chain referral sampling) was applied. This technique is usually used when surveying hidden or hard-to-reach targeted sample (Burduja and Zaharia 2019), which was the case with the Serbian businesspeople.

Invitation to fill out this online questionnaire was sent to 312 different e-mail addresses. 102 responses came back, giving a response rate of 32.7%. Those who did not fill out the questionnaire justified it with a lack of time, lack of interest and unfamiliarity with the research topic. The characteristics of respondents are presented in Table 1. A dominant respondent in the sample is a female director of a micro firm in the ICT sector in Belgrade, aged between 30-39 years, with post-graduate education.

Table 1. Summary statistics of sampled respondents.

Variable	n	Mean	St. Dev.
Gender			
Female	64	0.63	0.49
Male	36	0.36	0.48
No information	1	0.01	0.10
Age categories			
20-29	7	0.07	0.25
30-39	55	0.54	0.50
40-49	16	0.16	0.37
50-59	16	0.16	0.37
60>	7	0.07	0.25
Education			
Secondary	17	0.17	0.37
Tertiary	42	0.41	0.49
Post-graduate	42	0.42	0.50
Size of respondents' firm			
Micro	51	0.51	0.50
Small	30	0.29	0.46
Medium	11	0.11	0.31
Large	9	0.09	0.29
Position of respondent within firm			
Owner or Director	74	0.73	0.44
Manager	17	0.17	0.37
Worker	10	0.10	0.30
Sector of respondents' firm			
Manufacturing	17	0.17	0.38
Utilities	7	0.07	0.26
Construction	4	0.04	0.20
Wholesale and retail	7	0.07	0.26

Transport and warehousing	7	0.07	0.26
Catering	5	0.05	0.22
ICT	22	0.22	0.41
Financial services	15	0.15	0.36
Legal services	4	0.04	0.20
Other services	12	0.13	0.34
<hr/>			
Region of respondents' firm			
Belgrade	76	0.75	0.43
Southern and Eastern Serbia	11	0.11	0.30
Šumadija and Western Serbia	6	0.06	0.24
Vojvodina	8	0.08	0.26
<hr/>			
Firm is multinational			
No	74	0.73	0.44
Yes	18	0.18	0.38
No info	9	0.09	0.29
<hr/> <hr/>			

2.3.3 Empirical Methodology

In the first step of the analysis, we cluster different business respondents based on their views on topics connected to corruption and informal behavior. The propensity to corrupt and to support informalities in doing business is related to (1) trust in the judiciary and police and (2) perceptions of institutional barriers hindering business (Budak and Rajh 2014). Further, perceptions of the negative impact of corruption and crime together with perceived sources of corruption might delineate the typology of SMEs and different groups of firms calling for different anti-corruption remedies to alleviate the corruption risk faced by businesses in Serbia. Clustering was carried out using the K-means cluster method with Euclidean (L2) distance as a similarity measure. This method partitions n observations into k clusters in which each observation belongs to the cluster with the nearest mean (cluster centroid). Clustering was based on several variables: (1) Trust in institutions (TRUST); (2) Inspections as an obstacle for business (INSP); (3) Regulation as an obstacle for business (REG); (4) Crime as an obstacle for business (CRIME); (5) SMEs are more negatively affected by corruption (SME); and (6) Large businesses are a source of corruption (LARGE). Calinski and Harabasz pseudo-F index (Calinski and Harabasz 1974) and the Duda-Hart $Je(2)/Je(1)$ index (Duda, Hart and Stork 2001) were used as a criterion for determining the optimal number of clusters in a dataset. For both rules, index values are calculated for several different number of clusters, and larger index values indicate more distinct clustering. Mean values were calculated for TRUST, INSP, REG, and CRIME variables, and these mean values were taken as input in the K-means cluster analysis (Appendix 1). Both SME and LARGE are measured using a single-item scale, so their original values were taken as input in the K-means cluster analysis.

2.4 Results

2.4.1 Cluster analysis

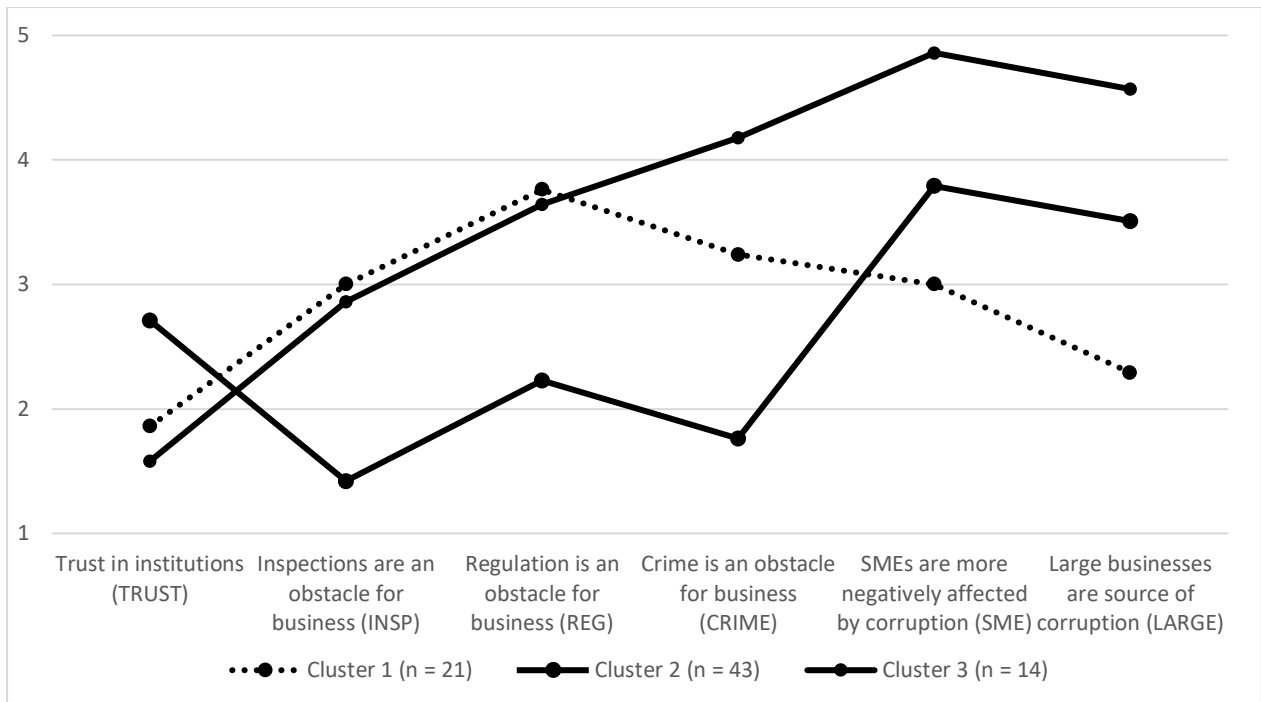
Results of the K-means cluster analysis differentiated three homogeneous segments of business respondents (Table 2 and Figure 1). Due to missing values (19 data entries are missing for CRIME, 11 for INSP, and 10 for REG – some of these missing values are overlapping), our sample was reduced to 78, which provides exogenous limitations for further investigation and more demanding empirical econometric analysis. All three groups have low levels of trust in institutions and differ largely in corruption-related variables.

Table 2. K-means cluster analysis results.

Values	Total sample (n = 78)	Cluster 1 (n = 21)	Cluster 2 (n = 43)	Cluster 3 (n = 14)	ANOVA F-statistics
Trust in institutions (TRUST)	2.34	1.86	2.71	1.58	14.7625***
Inspections are an obstacle for business (INSP)	2.08	3.00	1.42	2.86	32.2033***
Regulations are an obstacle for business (REG)	2.90	3.76	2.23	3.64	32.0029***
Crime is an obstacle for business (CRIME)	2.62	3.24	1.76	4.18	48.0582***
SMEs are more negatively affected by corruption (SME)	3.74	3.00	3.79	4.86	16.2812***
Large businesses are source of corruption (LARGE)	3.40	2.29	3.51	4.57	20.8102***

Notes: *** p<0.01. Apart from F-statistic, table contains means for all variables across total sample and different clusters.

Figure 1. K-means cluster analysis results.



Members of Cluster 1 consider inspections as well as organized and petty crime as moderate obstacles for their firm business operations. According to their perception, a somewhat more serious obstacle to doing business is connected to regulations and legislation. However, firms in Cluster 1 do not see large businesses as a source of corruption, neither that SMEs are more affected by corruption.

The level of trust in institutions is the highest in Cluster 2, yet still rather weak. For Cluster 2 members, in distinction to other respondents, inspections present almost no obstacle to doing business, and enforced regulations are seen only as a small obstacle. The most interesting perception among Cluster 2 respondents is that crime is posing a minor obstacle to their firm's business operations. On the contrary, SMEs are seen as strongly affected by corruption and large companies as generators of corruption.

Cluster 3 members have the lowest trust in institutions and share the opinion of Cluster 1 members that inspections and regulations stand as moderate obstacles to doing business. Regarding the influence of crime and corruption on doing business, their view is rigorous: crime is the biggest obstacle for business if compared to administrative barriers such as inspections and regulations. Additionally, they decidedly view large companies as sources of corruption and strongly agree that SMEs are victims of corruption more than large-sized firms.

Next, we examine the differences among the identified clusters based on the respondents and their firm characteristics (Appendix 2).

Cluster 1 characteristics are in line with the sample average. A bit differing attribute is that the respondents are mostly in their 30s, representing firms operating in the manufacturing and service sector. Over half of the firms in Cluster 1 are operating in financial, legal, and other services.

Cluster 2 is prevalent and above the sample average consisting of women and well-educated postgraduate respondents. The cluster members are owners and managers of mostly micro firms and two-thirds of them are between the age of 30 to 39. This group is specific for the largest regional dispersion of firms outside of the Belgrade capital and for the largest share of multinationals. The leading business activity of firms in Cluster 2 is manufacturing. In line with other respondents' attributes and not surprisingly, firms operating in ICT and financial sectors represent an important share as well (19% each).

Cluster 3 differs mostly from the sample average. It has an equal gender structure, the higher proportions of older respondents aged over 50 and respondents with secondary education level attained. The vast majority of firms in Cluster 3 are micro and small firms, whereas there are only one large, and no medium companies present. In comparison to other clusters, firms are mostly operating in catering, wholesale and retail, transport, and warehousing sectors. A further distinction is that the large majority of firms in Cluster 3 (86%) are operating in national or regional markets.

2.4.2. Corruption and informal behavior between clusters

Once the typology of clusters has been determined, detailed analyses of attitudes and behavior follow to shed light on B2B and B2G corruption and informal practices in Serbia.

2.4.2.1 B2B Corruption and informal practices

When doing business in Serbia, non-monetary gifts to business partners, together with hospitable and friendly signs of appreciation, are regarded as acceptable and licit. On the other hand, only a small percentage of respondents see money as conventional and customary. It can be observed that taking business contact for a treat is a widely acceptable practice for Cluster 1 members. Businesspeople in Cluster 3 are against favoring business partners' or employees' friends and relatives but see accepting gifts in cash from business partners as tolerable practice (Figure 2).

Figure 2. What are acceptable behaviors and gifts in business?

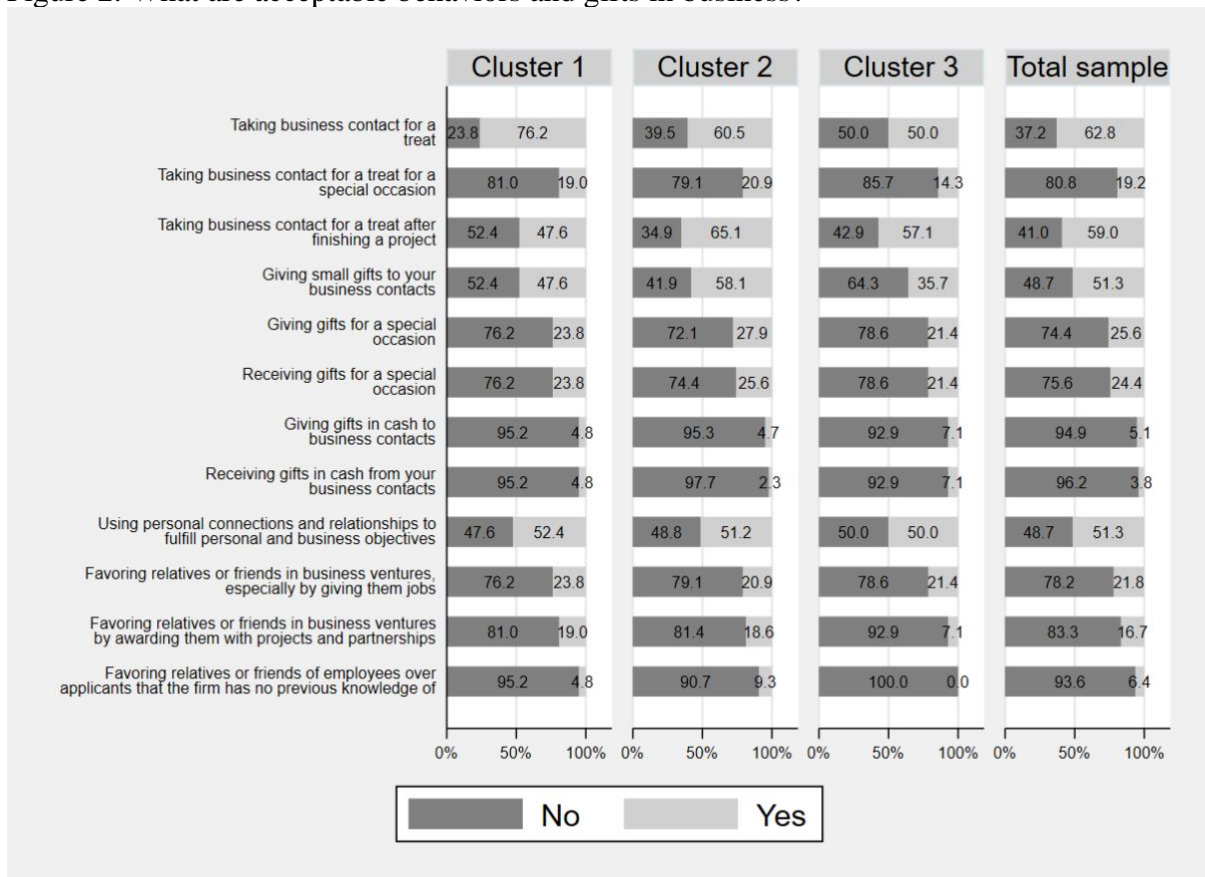
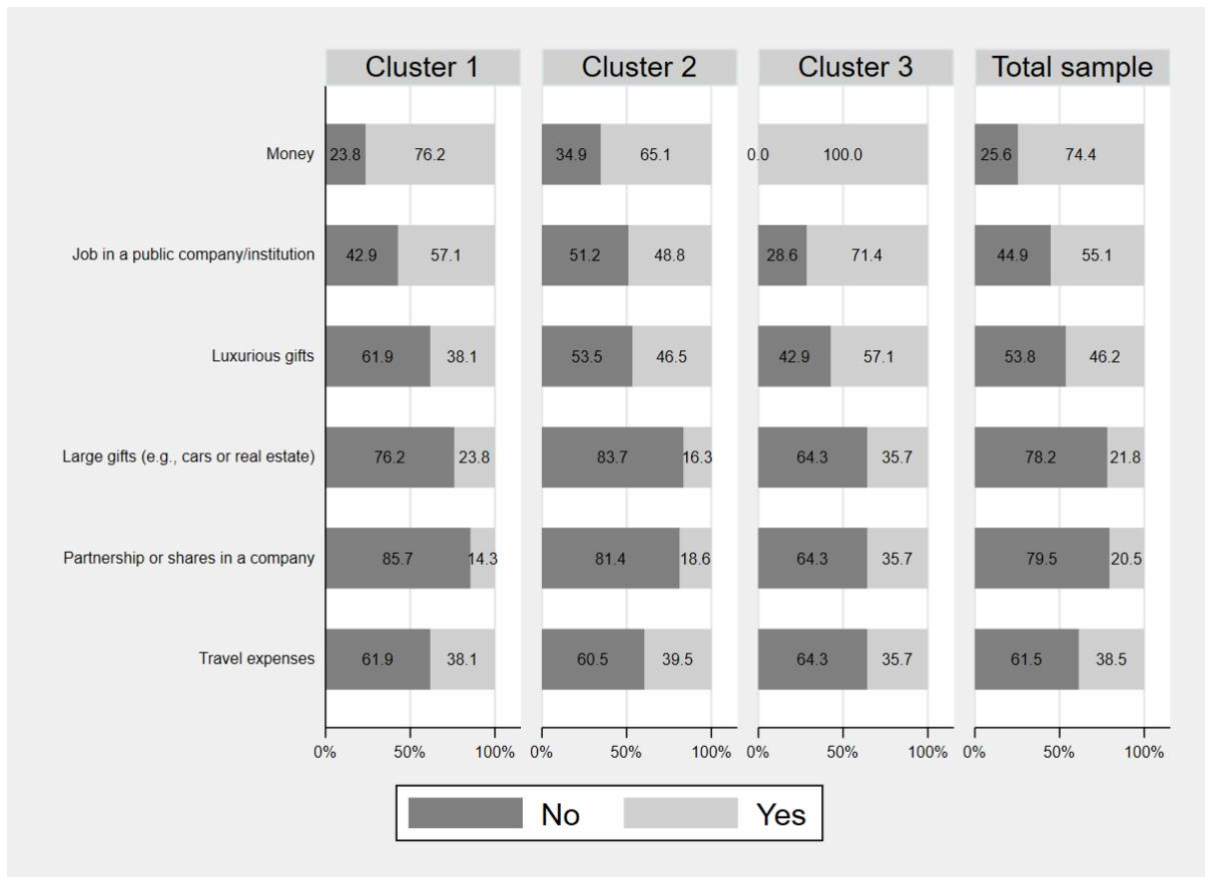


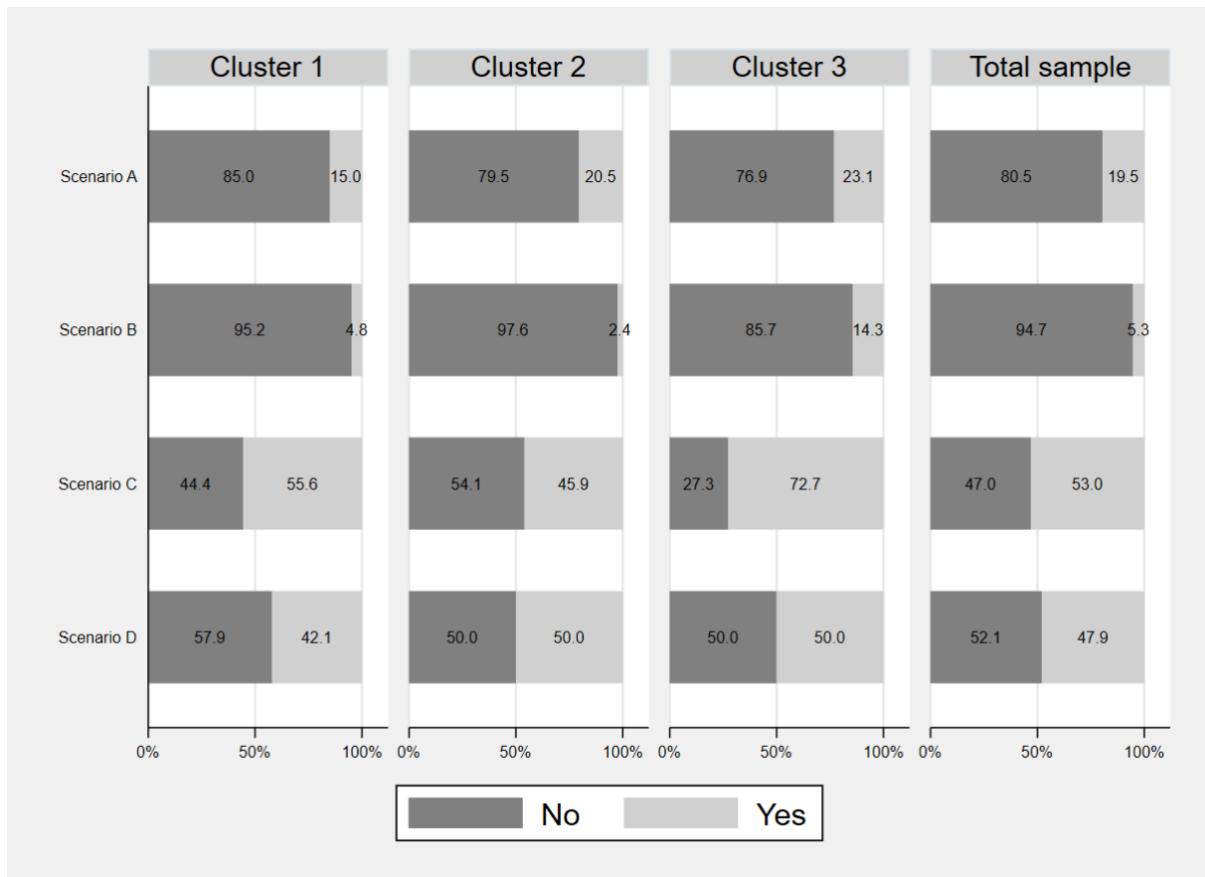
Figure 3 depicts a somewhat contradicting situation – even though monetary gifts are perceived as illicit, the vast majority of respondents (74%) heard of it as being the most common gift in the Serbian business community. Here large differences in the opinion among clusters are observed. Members of Cluster 3 completely agree on the omnipresent practice of bribery in cash, distinctive to the opinion of Cluster 2 (65%). Cluster 3 respondents strongly believe that all types of gifts in the business community are common, including hiring in the public sector.

Figure 3. What are the most common gifts in the business community?



Attitudes towards morally acceptable practices in B2B relations might differ from firms' practices in relation to the corruption pressure. Firms would refuse to take expensive personal gifts to ensure future deals or stocks in a partner's company, or to do him a non-disclosed favor. However, when it comes to hiring, more consent reactions could be expected. Thus, over 70% of Cluster 3 members would by request gladly employ a business partner adult child (Figure 4).

Figure 4. Propensity of B2B bribes



Notes: Different scenarios presented in Figure 4 include:

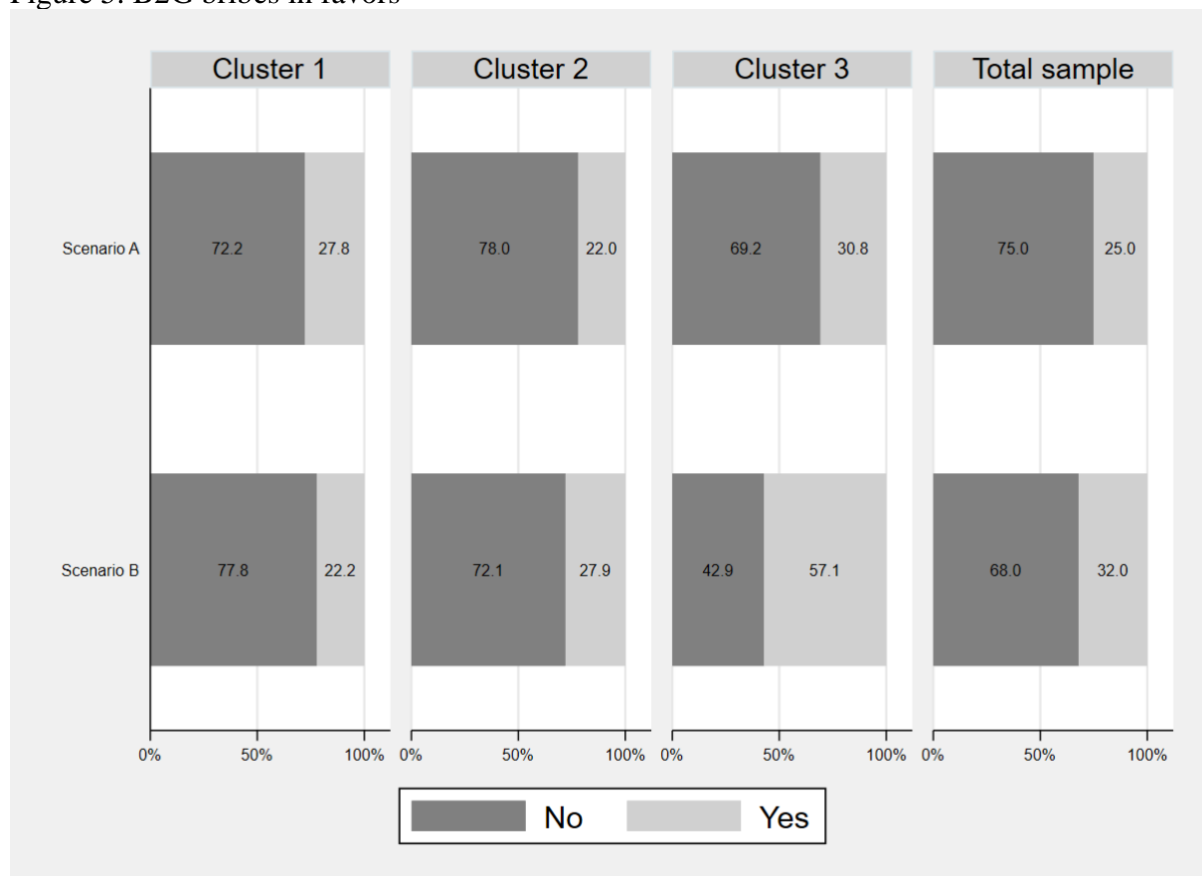
- A. After successfully completing a joint project, your business partner gives you as a gift an expensive hand watch (2,000 EUR worth). He gives it to you and only says that he will count on you in his future dealings. Would you accept this gift?
- B. Your business partner asks you for a favor: he will give you a block of stock in his company if you give him your storage for him to use. When you ask what he wants to store he doesn't want to disclose. Would you do him this favor?
- C. Your adult child cannot find work and you desperately want to help him/her. Would you ask your business partner to hire your adult child as a favor to you?
- D. Your business contact asks you for a favor. He asks you to hire his cousin in your company. In exchange, he would offer you more favorable conditions in the contract between yours and his company. Would you hire his cousin?

2.4.2.2 B2G corruption

The propensity to bribe public officials is as assumed, in line with the perceived administrative obstacles for business. The majority of businesspeople would not turn to illegal

practices of this kind to speed up administrative procedures or to ensure preferential treatment. However, over half of the firms in Cluster 3 would upon request hire a public official's family member in exchange for benefits (Figure 5).

Figure 5. B2G bribes in favors



Notes: Different scenarios presented in this figure include:

- A. You are fulfilling administrative tasks for your company in your municipality. An official who oversees your file seems to be very slow and overall reluctant in giving you necessary information to finalize the procedure. Do you offer him something (cash or a gift) as a stimulus to execute his task as professionally as possible?
- B. Public official asks you for a favor. He asks you to hire his family member in your company in exchange for preferential treatment of your company at the public institution where the official works. What do you do?

Different practice is observed in paying bribes in cash (Figure 6). Members of Cluster 3 would more than average bribe in cash, distinctive to the members of Cluster 2. Paying a requested small bribe to a local bureaucrat or tax officer is acceptable for almost one-third of firms in Cluster 1. When it comes to more serious amounts and business deals such as winning

the public tender where bribing higher officials are requested, Cluster 2 again proves to be the ‘cleanest’ cluster.

Figure 6. B2G bribes in cash



Notes: Different scenarios presented in this figure include:

- A. You are fulfilling administrative tasks for your company in your municipality. An official who oversees your file tells you that for **100 EUR** he would speed up the process and you would obtain a better service overall. Would you pay this price?
- B. Your company is struggling financially, and your company has never been in a worse situation. You are therefore applying for a tax break. An official who oversees your file tells you that for **500 EUR** he can guarantee that you would indeed get this tax break. Would you pay this price?
- C. Your company is competing at the local public tender which would be a significant financial opportunity for your company. During the process, an official in charge asks you for **1,000 EUR** in exchange for awarding your company on the tender. Would you pay this price?
- D. Your company applied for the open call for the public procurement of certain goods for one ministry. A third party approaches you and informs you that for a fee of **5,000 EUR** your company would win the

project. This person acts as an intermediary between companies that applied for the project and the Minister himself. Would you pay this price?

In B2G relations, managers are more reluctant to pay bribes and more likely to follow official procedures than owners. The ICT sector is the least likely to pay the bribe. Based on the example of hiring, in both B2B and B2G relations, businesspeople working in SMEs consider informal practices more acceptable than bribery and would employ them for the sake of keeping good business relations.

2.5 Discussion and Conclusions

This research contributes to the understanding of perceived obstacles, attitudes, and corruption-related behavior of businesspeople in Serbia. The generally very low level of trust in institutions is persistent and in line with previous findings of Begović and Mijatović (2001; 2007). Somewhat unexpected, though, inspections are not considered a major problem for SMEs in Serbia, and bribes are not commonly employed as grease in the wheels. When compared to the situation of 20 years ago (Vuković 2002), this finding indicates an improvement in the functioning of the Serbian public administration in terms of bribery. Everyday business is not much burdened with regulations either but hindered by crime and perceived corruption. The SMEs are more hit by the prevalent corrupt environment where large companies are seen as the source of corruption. Accompanied by no trust in institutions, this finding indicates a common perception of the existence of close ties between large corporate businesses and political structures, which generates the persistent and widespread prevalence of corruption in Serbia.

This research also points out that SMEs, which make up the dominant part of the Serbian economy, are not prone to corruption, but instead perceive themselves as the main victims of corruption in business. In line with this finding, different anti-corruption policies should be developed to address grand corruption and alleviate the burden on SMEs. Here the differences observed among groups of SMEs are instructive to derive measures to cease corruption pressure. Micro and small firms operating in dynamic and propulsive sectors such as ICT and financial services (and often beyond the national market) do not burden themselves with existing administrative and regulative system failures. Young and well-educated businesspeople are less prone to bribe and employ informal practices to achieve their business

goals. Both these findings should be however explored further to understand the reasons why these populations are more prone than others to run “clean” businesses.

These findings give ground for promoting lawful and incorruptible internal business policies. Raising awareness that corrupt behavior encompasses not only bribes in cash or expensive gifts but includes favors as well in exchange for a preferential treatment, or just to keep good business relations, is one of the key anti-corruption policy targets. Similarly, the role of businesses in combating B2B corruption is a topic worth further exploring given the respondents’ expressed (dis)trust in institutions and their (in)ability to fight corruption. Aimed research, especially with the objective to shape effective firms’ anti-corruption policies, could thus contribute to finding potential internal and external solutions for preventing both the B2B and B2G corruption and blowing the whistle on corrupt activities. Additionally, educational system could also be used as a vehicle to promote “clean” business and as such serve as an impetus for changes in business practices. As far as it considers recommendations for public policies, the perceived common practice of illicit trading with job positions in the public sector needs to be carefully addressed by increased transparency of hiring procedures and monitoring.

The sum of all findings could be applied in the wider context of Southeast European countries and used for understanding business codes in the whole EU periphery region.

This research is not without limitations, primarily since it captures the situation at one point in time only and since the sample is small. Thus, we only investigate correlations and associations instead of causations, which would require a panel data set structure. Furthermore, we do not have a representative survey as the final sample of 78 respondents is insufficient to claim so, and the results would be more applicable for deriving specific policy measures if large companies would also be included, allowing for more detailed sectoral analysis in future studies. Finally, there is a limitation in the form of a possible cognitive bias, regarding the semantics used in the questionnaire. Corruption as a word usually subconsciously creates negative associations. To prevent cognitive bias, the questions in the survey did not contain obvious words like corruption, fraud, bribe, etc. However, throughout the questionnaire, the respondents could have perceived what the overall topic of the survey was and that could have influenced their responses in the form of self-censorship.

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2.7 Appendices

Appendix 1. Items used for latent constructs.

Latent construct	Items	Description	Mean	St. dev.	Min.	Max.
Trust in institutions (TRUST)	trust_GenCourts	Trust in courts of general jurisdiction	2.49	1.03	1	5
	trust_HighCourts	Trust in higher courts	2.49	1.08	1	5
	trust_CommCourts	Trust in commercial courts	2.56	1.07	1	5
	trust_StatePros	Trust in the state prosecutor	2.04	1.15	1	5
	trust_BasicPros	Trust in basic prosecutors	2.40	1.15	1	5
	trust_HighPros	Trust in higher prosecutors	2.35	1.14	1	5
	trust_CrimePros	Trust in special prosecutor for organized crime	2.06	1.20	1	5
	trust_CommPolice	Trust in communal police	2.00	1.16	1	5
	trust_LocalPolice	Trust in local police	2.46	1.18	1	5
	trust_FinPolice	Trust in the financial police	2.12	1.05	1	5
Inspections are an obstacle for business (INSP)	hinder_LocalWorkInsp	Local work inspection hinders business operations	1.96	1.17	1	5
	hinder_StateWorkInsp	State work inspectorate hinder business operations	1.84	1.16	1	5
	obst_StateInsp	Too many inspections are obstacles for business	2.28	1.18	1	5
Regulations are an obstacle for business (REG)	obst_Law	Unclear legislation is an obstacle for business	2.77	1.32	1	5
	obst_LawChange	Frequent legislative changes are an obstacle for business	2.94	1.38	1	5
	obst_LawWork	Complicated labor regulations are an obstacle for business	2.74	1.39	1	5
	obst_TaxSystem	A complex taxation system is an obstacle for business	3.39	1.37	1	5
	obst_LawProc	Complicated procedures when starting a business are an obstacle to business	2.57	1.35	1	5
Crime is an obstacle for business (CRIME)	obst_OrgCrime	Widespread organized crime is an obstacle for business	2.71	1.35	1	5
	obst_PettyCrime	Petty crime is an obstacle for business	2.52	1.40	1	5

Appendix 2. Clusters' characteristics.

Variable	Values	Total sample (n = 78)	Cluster 1 (n = 21)	Cluster 2 (n = 43)	Cluster 3 (n = 14)	Chi- squared test statistic
Gender	Female	51 (65.4 %)	13 (61.9 %)	31 (72.1 %)	7 (50 %)	6.317
	Male	26 (33.3 %)	8 (38.1 %)	12 (27.9 %)	6 (42.9 %)	
	No information	1 (1.3 %)	0 (0 %)	0 (0 %)	1 (7.1 %)	
Age categories	20-29	3 (3.8 %)	1 (4.8 %)	2 (4.7 %)	0 (0 %)	5.059
	30-39	44 (56.4 %)	12 (57.1 %)	26 (60.5 %)	6 (42.9 %)	
	40-49	11 (14.1 %)	3 (14.3 %)	6 (14 %)	2 (14.3 %)	
	50-59	14 (17.9 %)	4 (19 %)	5 (11.6 %)	5 (35.7 %)	
	60>	6 (7.7 %)	1 (4.8 %)	4 (9.3 %)	1 (7.1 %)	
Education	Secondary	15 (19.2 %)	4 (19 %)	8 (18.6 %)	3 (21.4 %)	1.741
	Tertiary	33 (42.3 %)	11 (52.4 %)	16 (37.2 %)	6 (42.9 %)	
	Post-graduate	30 (38.5 %)	6 (28.6 %)	19 (44.2 %)	5 (35.7 %)	
Size of respondents' firm	Micro	40 (51.3 %)	11 (52.4 %)	22 (51.2 %)	7 (50 %)	3.22
	Small	23 (29.5 %)	5 (23.8 %)	12 (27.9 %)	6 (42.9 %)	
	Medium	9 (11.5 %)	3 (14.3 %)	6 (14 %)	0 (0 %)	
	Large	6 (7.7 %)	2 (9.5 %)	3 (7 %)	1 (7.1 %)	
Position of respondent within firm	Owner/Director	60 (76.9 %)	16 (76.2 %)	35 (81.4 %)	9 (64.3 %)	4.668
	Manager	14 (17.9 %)	5 (23.8 %)	6 (14 %)	3 (21.4 %)	
	Worker	4 (5.1 %)	0 (0 %)	2 (4.7 %)	2 (14.3 %)	
Sector of respondents' firm	Manufacturing	15 (19.2 %)	5 (23.8 %)	10 (23.3 %)	0 (0 %)	24.223
	Utilities	6 (7.7 %)	1 (4.8 %)	5 (11.6 %)	0 (0 %)	
	Construction	4 (5.1 %)	1 (4.8 %)	2 (4.7 %)	1 (7.1 %)	
	Wholesale and retail	5 (6.4 %)	1 (4.8 %)	2 (4.7 %)	2 (14.3 %)	
	Transport and warehousing	5 (6.4 %)	0 (0 %)	3 (7 %)	2 (14.3 %)	
	Catering	4 (5.1 %)	0 (0 %)	1 (2.3 %)	3 (21.4 %)	
	ICT	15 (19.2 %)	4 (19 %)	8 (18.6 %)	3 (21.4 %)	
	Financial services	12 (15.4 %)	4 (19 %)	8 (18.6 %)	0 (0 %)	
	Legal services	3 (3.8 %)	1 (4.8 %)	1 (2.3 %)	1 (7.1 %)	
	Other services	9 (11.5 %)	4 (19 %)	3 (7 %)	2 (14.3 %)	
Region of respondents' firm	Belgrade	57 (74 %)	15 (71.4 %)	29 (69 %)	13 (92.9 %)	3.971
	Southern and Eastern Serbia	9 (11.7 %)	2 (9.5 %)	6 (14.3 %)	1 (7.1 %)	
	Šumadija and Western Serbia	5 (6.5 %)	2 (9.5 %)	3 (7.1 %)	0 (0 %)	
	Vojvodina	6 (7.8 %)	2 (9.5 %)	4 (9.5 %)	0 (0 %)	
Firm is multinational	No	56 (71.8 %)	15 (71.4 %)	29 (67.4 %)	12 (85.7 %)	2.737
	Yes	14 (17.9 %)	3 (14.3 %)	10 (23.3 %)	1 (7.1 %)	
	No info	8 (10.3 %)	3 (14.3 %)	4 (9.3 %)	1 (7.1 %)	

3 Perceived Corruption and Informality among Croatian Businesspeople

3.1 Introduction

Croatia is a country that went through the transition process by harmonizing its legislation with relevant international documents, and by adopting the liberal market economy. As such, it 'returned to Europe' by joining the EU in 2013 (Šeperić 2011). However, due to the turbulent post-Yugoslav period, and because of the rocky privatization process and its impact on socio-economic structures (Domović 2013), the perception of corruption by Croatian citizens remains high (Transparency International 2021). Croatians see corruption as a remedy to an inefficient state and express very low confidence in public and state institutions as they do not believe the state's willingness to decisively tackle the corrupt practices within its ranks (Jurić 2020). Similarly, astounding 92% of citizens perceives government corruption as a major problem in their country, which places Croatia at the top of the list of the EU countries whose citizens are troubled by corruption (Transparency International 2021). The exhibited low levels of trust in political structures paints a picture of a society still not democratically consolidated and burdened by corruption and informal practices. For this reason, research on corruption is as timely as ever.

Relatedly, the businesspeople in Croatia also have a bleak perception of the domestic business environment. Namely, in the 2022 Eurobarometer Business Survey on Corruption, 93% of them stated that corruption is widespread in Croatia (the highest perception level in the EU), and 66% said corruption is a serious problem when doing business. These results also show a negative trend when compared with the 2019 Eurobarometer Business Survey on Corruption where Croatian businesspeople had somewhat better opinion on the presence of corruption in their country. Previously, in the 2013–14 Global Competitiveness Report, corruption is cited

as the third most problematic factor for doing business in Croatia (the first two were inefficient bureaucracy and political instability) (World Economic Forum 2013). When it comes to nepotism and patronage, in 2022, 60% of Croatian businesspeople see these as serious issues for their company when doing business in their country (Eurobarometer 2022).

Corruption in Croatia is not just an issue of perception. The public is informed about real cases of corruption from affairs that were heavily covered by the media, and specifically, about corruption scandals in business, which certainly provides a basis for the perceptions of corruption among businesspeople in Croatia. Croatian justice system had to deal with several high-level corruption scandals, where the involved persons came from the very top of business and political structures: for example, Agrokor affair, Hypo-Alpe-Adria affair, JANAF affair, and finally, the INA affair, which was first reported just one month before the start of data collection for this research (Hina 2022).

The presence of informal institutions and practices in doing business in Croatia is another phenomenon important to explore as it is (still) prevalent in the country and in the whole of the Balkans region (Gordy/Efendic 2019). Between the legal framework and everyday business practices exists a gap characterized by informality, clientelist relations, and interactions built on strong personal relationships (Ibid.). These personal ties encompass the functioning of the entire public life, business sphere included (Županov 2002; Cvijanović/Redžepagić 2011). For this reason, this research aims to contribute to better comprehending the aforementioned dissonance and asymmetry between formality and informality in order to recognize the policy gaps.

To assess the presence and extent of corruption and informality in the private sector, this research will focus on the perception of business actors actively partaking in everyday business in Croatia. The survey, designed for the purpose of this research, focused on the business to government (B2G) and on business to business (B2B) manifestations of corrupt and informal activities. Given the target group of this research, it is important to survey the active participants in the field of focus (business environment in this case), because businesspeople's attitudes and their circumstantial characteristics shape their corruption perception beyond what could be rationalized by personal experience with corruption (Gutmann/Padovano/Voigt 2019). Moreover, those individuals that are more work engaged, and/or dedicated (this being the case particularly with company owners and senior managers – the target population of this research), and that were previously exposed to corruption, tend to assess corruption as a bigger obstacle than those respondents that are not involved in business dealings, and do not possess the mentioned experience with corruption (Azfar/Murrell 2009). This study thus addresses the following research questions: i) what is the level of trust Croatian businesspeople have in institutions, ii) what are the perceived obstacles to their business in terms of institutions, regulations, crime, and corruption, iii) what is the perceived role of the EU membership in curbing corruption and informality, iv) are SMEs vs. large companies more affected and do they have different roles in generating corruption and informal practices? Finally, we are interested if there are distinctions between opinions stated by different groups of business actors and, if so, if they are related to variations in socio-demographic attributes of businesspeople and/or characteristics of the firms they represent.

This paper is structured as follows: after the introduction, an overview of the existing research and theoretical framework are presented. This is followed by a short breakdown of the Croatian political and economic context and all the aspects important for understanding the potential

prevalence of corruption and informality. Section 4 presents the data and methodology used. Results, presented in section 5, are discussed in the last section 6, together with concluding remarks, policy and managerial recommendations, limitations and avenues for further research.

3.2 Literature review

Transition is a process of transformation from central planning to a market economy, involving all-encompassing institutional changes and reforms at all levels of society. It is often labelled as the greatest social change in modern Europe (Hare/Turley 2013). This system transformation undoubtedly created entrepreneurial opportunities that did not exist before, evidencing in fact that private sector represents a major part of the output in all the Yugoslav successor states (Uvalić 2018). So, the market economy has been mainly achieved with heterogeneities existing between different countries. However, the expectations of long-term growth in living standards, as predicted by the World Bank in 1996, have only been partially achieved and some of the negative effects of capitalism were not mitigated in a timely manner (Bartlett 2008; Milanović 2014; Uvalić 2018). Income inequalities, poor quality of public services, inadequate tax systems, administrative burden are common for most of the European post-transition countries.

The economic and political transition from socialist Yugoslavia to capitalism created opportunities for certain actors to achieve economic gains. This was possible due to the institutional void, which occurred in those changing times. Such a void refers to the limitations or absence of the institutional arrangements that would normally sustain a newly established capitalist market (Khanna/Palepu 1997). Institutional voids created by the transition open the Pandora box of potential pitfalls for the criminalization of businesses (Cavotta/Phillips 2022). These are mainly manifested in forging close ties with policymakers and in forming (business)

alliances with family and friends (Ge et al. 2017; 2019). These two phenomena usually lead to business and/or state capture (Ateljevic/Budak 2010) and to the prevalence of nepotism (Šimić Banović 2019). Therefore, during the transition, a small circle of people, at the expense of the wider public, managed to tilt the playing field in their favor.

As a consequence of unstable governance during the transition period, informality and corruption became, or remerged, as important features in doing business in Southeast Europe (Efendic/Ledeneva 2020). Institutions in a society can be formal or informal, and as such they affect businesspeople's behaviors and attitudes in a way that they either constrain or enhance business activity (North 1990). While formal institutions are considered to reduce uncertainty and risks in doing business, informal ones are often regarded as underminers of efficiency, legal certainty (and legality), and competition (Welter/Smallbone 2011; Smallbone/Welter 2012). However, at times of ruptures (like transition and/or war), informal institutions can also serve as a replacement for non-existent formal institutions, or as a supplement for formal institutions that are lacking in quality and efficiency (Gordy/Efendic 2019; Horak et al. 2020; Ledeneva/Efendic 2021). Individuals and entire social groups, in their desire to bear the burden of the uncertainty more easily, and to be able to economically cope with the new reality, rely more and more on primary social ties - 'traditions, customs, moral values, religious beliefs and all the other norms of behavior that have emerged spontaneously, survived the test of time, and served to bind the generations' (Pejovich 2008:11). Despite this positive role that informality may have at the initial stages of transition, in the long run it usually leads to creation of clientelism and corruption, which become critical hindrances in building up an efficient state structure (Rose-Ackerman 1999). In the post-communist societies, both tension and complementariness between formal and informal institutions exist and persist, despite political and administrative efforts to 'formalize' the informality (Šimić Banović 2015). This

disharmony between the two types of institutions increases transaction costs for economic exchanges and thus hinder the creation of wealth (Pejovich 2003; Williams/Franic 2016). The existence of strong informal institutions reveals the presence of political instability and cronyism, a system in which certain business elites benefit from nurturing close ties with political elites (Haber/Maurer/Razo 2002). These create unfair competition where links to politicians allow for lax law enforcement and corruption, which is detrimental to both other businesspeople and consumers (Krasniqi/Desai 2016; Rajwani/Liedong 2015; Frey/Lecić 2023). Such a situation can also be described as ‘business capture’ of a state (Bartlett 2021). In the high-context countries that are structured on the basis of interpersonal relations, such as Croatia, doing business tends to be regulated by informal rules (Šimić Banović 2015). Since informal, these rules and practices could also swiftly become corrupt, depending on the context in which these are played out. The cultural context thus blurs the boundaries between sociability and instrumentality, and as such it is almost impossible to determine when informality ends and when the corruption begins (Ledeneva 2014). Nevertheless, those who engage in corrupt and informal activities demonstrate low trust in formal institutions and perceive greater levels of corruption in their respective societies (Wallace/Latcheva 2006). Consequently, this leads to a vicious circle where operating outside of the law further decreases trust in the state institutions and increases ‘opportunities’ for corruption (Vorley/Williams 2016).

The perseverance of informality and corruption in the region of Southeast Europe can be attributed to many factors. Historians tend to take into consideration the following: century-long economic underdevelopment, social and cultural backwardness (e.g., religiosity, traditionalism, etc.), dictatorships, occupations/colonialism (Ottoman or Austro-Hungarian, or both), communism, transition, and wars (Petrovic 2008; Stulhofer et al. 2008). And even

though the role of history should not be neglected, the empirical data show that informality and corruption are predominantly rooted in the persistent economic underdevelopment, the peripheral position in Europe (Cieřlik/Goczek 2018; Uberti 2018). Thus, informality and corruption are not proved to be a cultural phenomenon of this particular part of Europe, as they exist across the world (e.g., Christiansen/Neuhold 2012).

Finally, the role of the EU membership with regards to corruption and informality, is proved to be twofold. On one hand, there is an expectation of a decrease in corruption because of the EU joint initiatives to combat illegal and illicit practices, but on the other hand, there are also reasons to assume that corruption may increase due to the lack of EU enforcement of the (national) anti-corruption institutions and policies (Alfano/Capasso/Goel 2021). Essentially, the EU has made effective corruption control a condition for membership, but it does not have the legal means to effectively sanction non-compliance once a country is an EU member (Lacatus/Sedelmeier 2020). The recent studies of the Eastern enlargement and the Croatian accession in 2013, have shown that after the accession of Croatia to the EU corruption actually increased (Kartal 2014; Alfano/Capasso/Goel 2021). These findings highlight the importance of the EU's political leverage and its pressure on respective governments to deliver reforms that decrease corruption *during* the accession process. After the accession though, this pressure is gone, and corruption re-emerges (Kartal 2014). This trend can be attributed to the general democratic backsliding in the EU's new Member States (Eastern Enlargement), where all the countries share the common historical legacy of democratic and economic transition after the breakdown of socialism (Kotarski/Petak 2021).

3.3 Political and socio-economic context in Croatia

The transformation process that started in 1989 in Central and Eastern Europe (CEE) could be considered as ‘Year One’, or *tabula rasa* of 1989 (Elster et al. 1998). The countries of the former East Bloc and Yugoslavia had a historical opportunity to execute a successful transition towards capitalist system. Fukuyama (1989) calls this historical moment ‘the end of history’ when capitalism became the only game in town. This claim and prediction could have been true for some of the CEE countries, however Croatian case was different mainly because of the violent dissolution of the former Yugoslavia. Also, Croatia’s transition differed from the other Eastern European countries due to the chosen privatization model, which was launched during unstable political and social circumstances. These factors allowed for the appearance of a new political and economic elite legitimized by the war and the struggle for independence (Grubiša 2005). These had major, if not decisive, consequences on the current Croatian state and its economy.

With the fall of communism beginning the 1990s, Yugoslavia fell apart along the former socialist republics that composed it, which mainly followed ethnic lines. This period was marked by wars, war profiteering, smuggle economy, rise of black-market economy, lack of rule of law and forced displacement of population. These events led to a situation where the high levels of corruption perception persisted, despite the existence of anti-corruption laws and other legal tools. The political elites and war profiteers that emerged as victors from the Croatian war for independence had interest in maintaining the *status quo* (Elster et al. 1998; Van Duyne, Stocco and Milenović 2009). Therefore, today, after more than 30 years of transition, democratization and pacification of the Western Balkans region, Croatia remain a country characterized by high levels of corruption (Piplica/Čovo 2011), marked by crony

capitalism (Franičević 2001; Franičević 2002; Ivanković 2017), and troubled by organized crime (Kmezić/Atanasijević 2019).

The corruption in Croatia is systemic. Although there is no consensus about the concept of systemic corruption (see more in Vergara 2020), it is commonly described as the pervasive, deep-rooted prevalence of a wide set of corrupt practices, whereas corrupt practices are expected behaviour rather than the exception (Persson/Rothstein/Teorell 2019). The previous studies conducted in Croatia discuss mostly the political grand corruption, but since it being systemic, corruption encompasses administrative (petty) corruption as well, thus ‘contaminating’ the entire society. Consequently, the poor implementation of the rule of law further contributed to systemic corruption, despite the fact that strengthening the rule of law was one of the key factors in meeting the criteria to join the EU (Elbasani/Šabić 2018; Kmezić 2016; Von Bogdandy/Ioannidis 2014). Corruption in Croatia appears in many forms: bribery, nepotism, clientelism and other forms of favouritism, embezzlement of funds, fraud, trading services and influence (Grubiša 2010; Budak 2007). It persists over decades, and it is present in various sectors (see for e.g., Vuković 2017 for systemic political corruption at the local level in Croatia, or Ateljević and Budak 2010 for corruption in public procurement). Emigration and a bad business climate are recently seen as the most harmful effects of corruption in Croatia (Jurić 2018; Kurecic/Kokotovic/Haluga 2023).

At the same time, the Croatian society remains burdened with extensive informal clientelist and nepotistic networks (Šimić Banović 2019), afflicted by the neo-patrimonial political condition (Beqiri 2020). Županov (2002) mentions two main socio-cultural continuities that came to the fore in the post-communist period in Croatia: communist heritage and elements inherited from the traditional society. From the communist period, Croatia inherited a

preference for political loyalty over professional abilities. Political suitability is assessed as incomparably more important than professional competence and personal moral integrity. Such politicization continued after the first multi-party elections in 1990 until today (Ibid.). The prevailing issue when doing business in Croatia is the necessity of maintaining close relationships with the incumbents (Šimić Banović 2015a). This is ‘almost considered to be a must for running a successful business, particularly when dealing with the State’ (Šimić Banović 2015b:195). The second aspect characteristic for the entire Southeast Europe is the existence of strong traditional culture, which can best be described as a set of traditional obligations towards local, kinship or politically based social networks (Čaldarović et al. 2009), and as a synonym of the concept of collectivist culture (Šimić Banović 2019). The negative attitude towards any wealth accumulation within the national framework is part of a value orientation that Županov (2002) calls radical egalitarianism, a normative phenomenon whose essential components are anti-professionalism and anti-intellectualism. Burić and Štulhofer (2016:362) contributed further to this theory by pointing out that the egalitarian syndrome may be a hindrance for the country’s socio-economic development because ‘the negative associations were observed between the acceptance of values associated with the egalitarian syndrome and county-level development and competitiveness scores, GDP and early entrepreneurial activity’.

However, even though social and economic problems remain – particularly the faulty regulatory environment that is below the EU average, low skills levels, and limited finance access (OECD 2020) - Croatia did make a significant progress in terms of development and approximation to the Western European economies. Despite all the setbacks, Croatian society and the ruling elites did in fact reach a consensus on the necessity of Euro-Atlantic integrations beginning of 2000s, which carried many legal, economic, and political obligations for the

society (Bartlett 2002). Because of these efforts, the general conditions for entrepreneurship have improved in the last decade and Croatia in fact became an EU member in 2013, and a part of the Eurozone in 2023. Therefore, on one side, there is the persisting problem of systemic corruption in Croatia and on the other hand, the economy is performing well (Croatian National Bank 2023). It is thus very difficult to measure the direct and indirect impacts of corruption on the real business results of companies, and studies so far did not come to a consensus regarding this matter (e.g., Van Vu et al. 2028; Nam et al. 2020; Williams/Kedir 2016; Donadelli/Fasan/Magnanelli 2014). Generally, it is considered in the literature that the harmful effects of corruption to business sector prevail over the possible positive ones when corruption may work as a grease in the wheels (Dutta/Sobel 2016).

The Croatia's EU integration process yielded anti-corruption policies and strategies that mainly concentrated on political corruption. For example, public procurement is considered to be particularly negatively affected by corruption, so some direct measures have been put in place such as the so-called 'anti-corruption article' in the law on public procurement (Gnip 2022). Preventing conflict of interest in public procurement legislation served more to raise awareness but proved no effectiveness (as evidenced by numerous scandals in public procurement procedures in Croatia).

This anti-corruption agenda was the focus of the previous research on corruption. Regarding corruption in the private sector, there are several studies conducted in Croatia since its independence, and most of them found corruption to be widespread in the Croatian business environment. Budak (2007) showed that Croatian entrepreneurs make informal payments/bribes most frequently to public officials in order to obtain 'protection' of their business interests, or to get around the burdensome regulations, hence, to offset formal

institutional inefficiency. These findings also show a high level of businesspeople's perception of corruption prevalence in Croatia. Businesspeople from the countries of the Western Balkans (and Croatia) understand corruption as helpful 'grease in the wheels' and as a government-related issue. On a positive note, they also believe individual action and firms' internal code of ethics could contribute to restraining corruption (Budak/Rajh 2014). This study also revealed the importance of the institutional context and the citizens' trust in the institutions. Indicative for Croatia is the high level of citizens' opportunism and lack of public trust in institutions, both aspects that could undermine anti-corruption efforts (Budak/Rajh 2012). As a result of government failing to solve the issue of corruption on the operational level, the private sector assesses public administration behavior toward business entities as highly corrupt. As such, corruption is viewed as a prominent and significant issue for the economy (Pureta/Pureta 2019; Glavinja/Cerić/Nahod 2017; Botrić 2020). Similarly, firms tend to engage in B2B corruption to tactically counter perceived bureaucratic power (Rajeev/Budak/Rajh 2015). The prominence of informal networking of businesspeople in Croatia, but also among entrepreneurs in whole Southeast Europe (Ledeneva/Efendic 2022), is thus significant, particularly in terms of time and money invested (Efendic/Ledeneva 2019; Budak/Vizek 2015).

3.4 Data and Methodology

Data for this research were collected through a survey designed for owners and/or managers in Croatian firms. Collected information was quantitatively processed by testing for scale reliability and validity assessment of latent constructs and by conducting cluster analysis.

3.4.1 Questionnaire

Data were collected by conducting a survey in a form of an online questionnaire, administrated from September to October 2022. The questionnaire comprised of multiple-choice questions,

open questions, and rating scales. The questionnaire was originally developed by authors, based on the literature review on corruption and informality. The first extended version of the questionnaire has been previously applied by authors in the research focused on Serbia (Frey/Škrinjarić/Budak 2022). In Croatia, we used the shortened and adapted version of the questionnaire divided into three thematic parts. The respondents were asked in the first section about acceptable business practices and about common gifts between business partners in Croatia. In the second section they were faced with various hypothetical situations that probed into perception of corruption of the respondents. A range of answers to these situations was offered, stretching from law-abiding to corrupt reactions. These reactions were offered as nuanced choices that also included a grey zone between the two extreme answers. Thus, respondents could mark more than one answer because the hypothetical situations and their reasons to choose a certain answer may overlap. The concluding part of the questionnaire applied the Likert scale to assess the perception of corruption of respondents in relation to public officials and institutions.

3.4.2 Sample

Following and adapting the sampling strategy from Iooty et al. (2014), final questionnaire (representative in terms of firm size and Croatian NUTS2 regions) was sent out to 24,320 Croatian firms i.e., to their contact e-mail addresses. For each size category, a stratified sample was constructed within each region as control variables. The first stage included the creation of a table containing data on the size of each region stratum. After that, a share of each stratum in the population was calculated and then used to compute the number of firms from each stratum to be selected in the sample. 652 responses came back, giving a 2.7% completion rate. The characteristics of respondents are presented in Table 1. A dominant respondent in our sample is a male director of a micro firm in the financial and legal services sector in City of

Zagreb, aged between 40-49 years, with tertiary education and with about 13 years of business experience. Overall, the obtained sample is representative of the population in terms of firm size and region (Figure A1 in Appendix). In terms of the gender ownership structure of Croatian enterprises, based on the latest available data for 2021 from Croatian Financial Agency (Financial Agency, 2021), 18.6% of enterprises were female-owned and 51.4% were male-owned (the remainder of 30% accounts for mixed ownership, ownership by legal entities and unspecified ownership). Thus, our sample is rather representative of male-owned firms but is somewhat over-represented by women entrepreneurs.

Table 1. Summary statistics of sampled respondents.

Variable	N	%
Gender		
Female	291	45%
Male	361	55%
Age categories		
≤19	1	0%
20-29	12	2%
30-39	105	16%
40-49	225	35%
50-59	205	32%
≥60	100	15%
Education		
Secondary	137	21%
Tertiary	392	60%
Post-graduate	123	19%
Size of respondents' firm		

Micro	467	72%
Small	133	20%
Medium	40	6%
Large	9	1%
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Position of respondent within firm		
Owner/Director	465	71%
Manager	138	21%
Worker	49	8%
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Sector of respondents' firm		
Agriculture	16	2%
Manufacturing	68	10%
Utilities	19	3%
Construction	68	10%
Wholesale and retail	80	12%
Transport and warehousing	20	3%
Catering	34	5%
ICT	83	13%
Financial and legal services	118	18%
Other services	146	22%
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Region of respondents' firm		
Pannonian Croatia	91	14%
Adriatic Croatia	197	31%
City of Zagreb	271	42%
North Croatia	82	13%
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Is firm global?		
Not global	611	94%
Global	41	6%

3.4.3 Analysis

The first stage of analysis included testing for scale reliability and validity assessment of latent constructs used in this study. We used Cronbach's alpha (CA) and Alpha-if-deleted coefficients, and exploratory and confirmatory factor analysis. CA coefficient is used as a measure of scale reliability because it measures internal consistency, that is, how closely related a set of items is as a group. Alpha-if-deleted coefficient is used for measuring the internal consistency of the scale. The dimensionality of the scale is tested by exploratory and confirmatory factor analysis.

In the second step of the analysis, we cluster different respondents based on their views on topics connected to corruption and informal behavior. Clustering was carried out using the K-means cluster method with Euclidean (L2) distance as a similarity measure. This method partitions n observations into k clusters in which each observation belongs to the cluster with the nearest mean (cluster centroid). Clustering was based on several variables that were derived from the theoretical and literature review: (1) Trust in institutions (TRUST); (2) Regulation as an obstacle for business (REG); (3) Crime as an obstacle for business (CRIME); (4) Institutions as an obstacle for business (INST); (5) SMEs are more negatively affected by corruption (SME); (6) Large businesses are a source of corruption (LARGE); and (7) Perceived decrease in corruption following Croatia's accession to the EU (EU). Due to missing values in some of these variables, our sample was reduced to 531 observations. Calinski and Harabasz pseudo-F index (Calinski/Harabasz 1974) and the Duda-Hart $Je(2)/Je(1)$ index (Duda/Hart/Stork 2001) were used as a criteria for determining the optimal number of clusters in a dataset. For both rules, index values are calculated for several different number of clusters, and larger index

values indicate more distinct clustering. Mean values were calculated for TRUST, INSP, REG, and CRIME variables, and these mean values were taken as input in the K-means cluster analysis (Table A1 in Appendix). Both SME and LARGE are measured using a single-item scale, so their original values were taken as input in the K-means cluster analysis.

The third stage of data analysis was oriented towards identifying the differences among the groups (clusters) of respondents. The differences were tested using the chi-square test and ANOVA.

3.5 Results

3.5.1 Latent construct estimation

Exploratory factor analysis (EFA) was conducted to preliminary test dimensionality of latent constructs used. Principal component was used as a method of factor extraction and Kaiser-Guttman rule (specifying that factors with eigenvalues greater than 1 are retained) was used as a method for determining the number of extracted factors (Table A2(A) in Appendix). Results indicate that measurement scales for all our latent variables are unidimensional, as all items have high factor loadings on their respective factor (Table A2(B) in Appendix). EFA results also indicate that latent variable scales pose the attribute of convergent validity. Therefore, the initial set of selected items can be considered as one measurement scale for each of those variables.

Table A3 in Appendix presents the CA coefficients and item correlations for all items used to estimate latent constructs. Values of CA coefficient and the results of the measurement scale reliability analysis indicate that the measurement scales used in constructing these variables possess a satisfactory level of reliability. Both analyzed types of correlations indicate a high

degree of correlation of each statement with the overall measurement scale, while Alpha-if-deleted values indicate that in this case the removal of any statement would cause a decrease in CA coefficient, i.e., the scale would become less reliable.

Convergent validity was also assessed with Confirmatory factor analysis (CFA). Obtained results, presented in Table A4 in Appendix, further confirm EFA results. Fit indices show that measurement model has an acceptable level of fit to empirical data. All analyzed items load on their respective factors and all loadings are statistically significant. Thus, results indicate that all scales are unidimensional.

3.5.2 Cluster analysis

Results of the K-means cluster analysis differentiated three homogeneous segments of business respondents (Table 2). The total sample is rather evenly distributed, with each cluster representing about one-third of the surveyed sample.

Table 2. K-means cluster analysis results.

Variables	Total sample (n = 531)	Cluster 1 (n = 167)	Cluster 2 (n = 208)	Cluster 3 (n = 156)	ANOVA F-statistics
Trust in institutions (TRUST)	2.39	2.79	2.01	2.42	50.63***
Regulation as an obstacle to business (REG)	2.69	2.36	3.45	2.06	168.37***
Institutions as an obstacle to business (INST)	1.90	1.57	2.64	1.26	149.81***

Crime as an obstacle to business (CRIME)	2.92	2.25	3.91	2.27	228.37***
SMEs more negatively affected by corruption (SME)	3.65	2.68	4.42	3.72	130.95***
Large businesses as source of corruption (LARGE)	3.60	2.48	4.01	4.29	203.02***
Accession to EU reduced corruption (EU)	2.33	2.96	2.12	2.00	39.09***

Notes: *** $p < 0.01$. Apart from F-statistic, table contains means for all variables across total sample and different clusters. Items were measured on a 5-point Likert scale ranging from 1 to 5 (for TRUST: 1 – Don't have trust at all, ..., 5 – I have full trust; for REG, INST and CRIME: 1 – Not an obstacle at all, ..., 5 – Very large obstacle; for SME, LARGE and EU: 1 – Don't agree at all, ..., 5 – I agree completely).

On average, firms' representatives do not perceive institutions as obstacles to their business. Neither regulation nor crime are perceived as barriers to doing business. However, organized and petty crime in Croatia could become a threat to doing business, taking into account that the average respondent is uncertain whether this presents an obstacle to their business (mean value of 2.92). There is a prevalent opinion of the firms' representatives that corruption more negatively affects SMEs and that large companies are generating corruption in Croatia. Given that 91 percent of surveyed firms are SMEs, this result is not surprising.

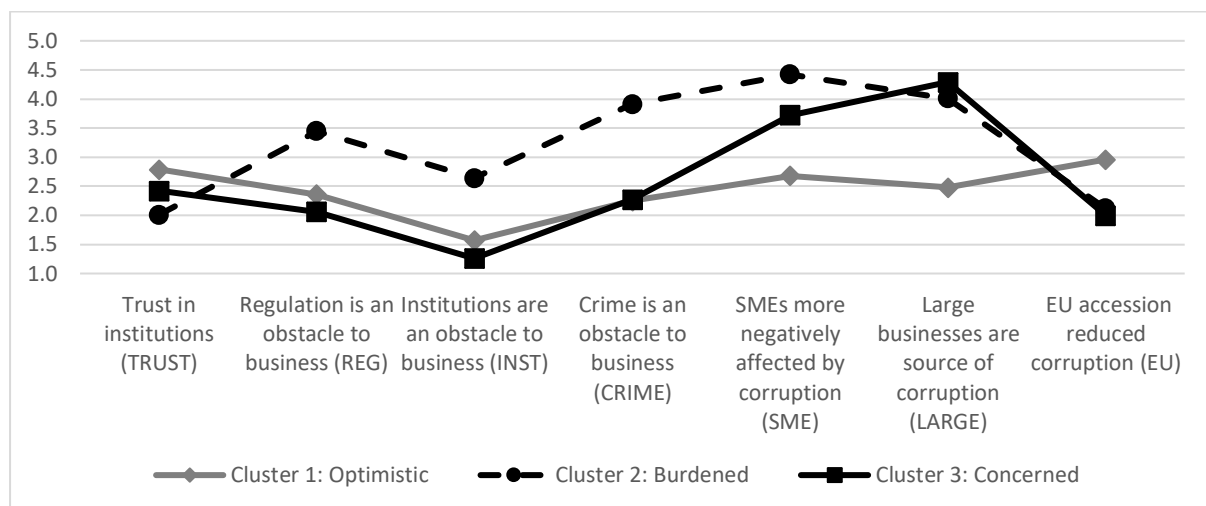
The answers collected for each segment of respondents reveal differences in the opinions of cluster members (Figure 1):

Cluster 1 – *Optimistic* stands for positively minded. Its members do not perceive to have barriers hampering their business or at least, see the conditions for doing business as less negative when compared to the other two clusters.

Cluster 2 – *Burdened* stands for the distinguishing characteristic of its members who feel constrained by obstacles when doing business.

Cluster 3 – *Concerned* are managers and owners of those firms who do not perceive many business barriers other than corruption, and this corruption issue won't be solved by the EU either.

Figure 1. K-means cluster analysis results.



Cluster 1 – *Optimistic* members (grey line on Figure 1) have slightly more trust in institutions and have the lowest perceptions of regulation, institutions, and crime as being an obstacle to their business. Opposite to the prevalent opinion of Cluster 2 – *Burdened* and Cluster 3 – *Concerned*, businesspeople from Cluster 1 – *Optimistic* do not think that SMEs are more negatively affected by corruption than large companies and do not see large businesses as sources of corruption in Croatia. Further, Cluster 1 – *Optimistic* has more positive opinion of the EU accession role in reducing corruption when compared to other two clusters. Ultimately,

Cluster 1 – *Optimistic* has overall the most positive views on the dimensions of doing business investigated in this survey.

On the contrary, members of Cluster 2 – *Burdened* (dashed black line on Figure 1) express contrary opinions in five out of seven variables measured. They have the lowest trust in institutions and see many obstacles to their business. According to the opinion of this group of businesspeople, institutions are close to becoming a barrier to their firms' operations. However, the biggest obstacle for Cluster 2 – *Burdened* businesspeople is crime, followed by regulations. This group strongly believes that the negative impacts of corruption are more affecting SMEs and that large companies are the source of corruption. They strongly disagree with the statement that the EU accession process helped in reducing corruption in Croatia. Among all the clusters, Cluster 2 – *Burdened* has the most negative perceptions of the conditions of doing business in Croatia.

The common opinion of Cluster 3 – *Concerned* members (solid black line on Figure 1) matches the opinion of Cluster 1 – *Optimistic* members regarding institutions and obstacles to their business. However, when it comes to the role of the EU accession in reducing corruption, their views are pessimistic. Businesspeople in Cluster 3 – *Concerned* do not perceive the EU accession as a factor that helped combat corruption. Large companies are intensely perceived as sources of corruption. Members of Cluster 3 – *Concerned* on average agree that corruption affects SMEs more negatively, and this distinguishes them from Cluster 1 – *Optimistic* (mostly disagree) and Cluster 3 – *Concerned* (strongly agree).

Differences in opinions of the three clusters might be explained by the socio-demographic characteristics of cluster members (Table 3). Businesspeople in Cluster 1 – *Optimistic* are

prevalently men (70%). They belong to the highly educated respondents since the share of those with post-graduate education in Cluster 1 – *Optimistic* is surpassing the total sample average. Also, micro firms in Cluster 1 – *Optimistic* are underrepresented. Small firms in propelling sectors such as ICT, financial services, and utilities are more represented in this cluster when compared to the other two clusters. This is most likely in accordance with the expertise necessary for these sectors, which are in line with the education levels of the Cluster 1 – *Optimistic* respondents. All clusters share a similar distribution to the total sample in terms of age and regional origin of respondents.

Table 3. Sample and clusters characteristics.

Variable	Values	Total sample (n = 531)	Cluster 1 – Optimistic (n = 167)	Cluster 2 – Burdened (n = 208)	Cluster 3 – Concerned (n = 156)	Chi-squared test statistic
Gender	Female	218 (41.1 %)	50 (29.9 %)	82 (39.4 %)	86 (55.1 %)	21.522***
	Male	313 (58.9 %)	117 (70.1 %)	126 (60.6 %)	70 (44.9 %)	
Age categories	<=19	0 (0 %)	0 (0 %)	0 (0 %)	0 (0 %)	2.566
	20-29	12 (2.3 %)	3 (1.8 %)	6 (2.9 %)	3 (1.9 %)	
	30-39	84 (15.9 %)	24 (14.5 %)	32 (15.5 %)	28 (18.1 %)	
	40-49	177 (33.5 %)	56 (33.7 %)	74 (35.7 %)	47 (30.3 %)	
	50-59	175 (33.1 %)	56 (33.7 %)	66 (31.9 %)	53 (34.2 %)	
	>=60	80 (15.2 %)	27 (16.3 %)	29 (14 %)	24 (15.5 %)	
Education	Secondary	112 (21.1 %)	28 (16.8 %)	49 (23.6 %)	35 (22.4 %)	6.445
	Tertiary	313 (58.9 %)	96 (57.5 %)	124 (59.6 %)	93 (59.6 %)	
	Post-graduate	106 (20 %)	43 (25.7 %)	35 (16.8 %)	28 (17.9 %)	
Size of respondents' firm	Micro	371 (70.1 %)	100 (59.9 %)	152 (73.4 %)	119 (76.8 %)	19.497***
	Small	114 (21.6 %)	43 (25.7 %)	43 (20.8 %)	28 (18.1 %)	
	Medium	35 (6.6 %)	21 (12.6 %)	9 (4.3 %)	5 (3.2 %)	
	Large	9 (1.7 %)	3 (1.8 %)	3 (1.4 %)	3 (1.9 %)	
	Owner/Director	375 (70.6 %)	113 (67.7 %)	154 (74 %)	108 (69.2 %)	3.717

Position of respondent within firm	Manager	116 (21.8 %)	43 (25.7 %)	40 (19.2 %)	33 (21.2 %)	
	Worker	40 (7.5 %)	11 (6.6 %)	14 (6.7 %)	15 (9.6 %)	
<hr/>						
Sector of respondents' firm	Manufacturing	12 (2.3 %)	5 (3 %)	3 (1.4 %)	4 (2.6 %)	
	Utilities	59 (11.1 %)	25 (15 %)	23 (11.1 %)	11 (7.1 %)	
	Construction	18 (3.4 %)	5 (3 %)	6 (2.9 %)	7 (4.5 %)	
	Wholesale and retail	58 (10.9 %)	20 (12 %)	25 (12 %)	13 (8.3 %)	
	Transport and warehousing	67 (12.6 %)	16 (9.6 %)	34 (16.3 %)	17 (10.9 %)	18.497
	Catering	16 (3 %)	2 (1.2 %)	8 (3.8 %)	6 (3.8 %)	
	ICT	29 (5.5 %)	11 (6.6 %)	11 (5.3 %)	7 (4.5 %)	
	Financial services	62 (11.7 %)	22 (13.2 %)	20 (9.6 %)	20 (12.8 %)	
	Legal services	95 (17.9 %)	27 (16.2 %)	37 (17.8 %)	31 (19.9 %)	
	Other services	115 (21.7 %)	34 (20.4 %)	41 (19.7 %)	40 (25.6 %)	
<hr/>						
Region of respondents' firm	Pannonian Croatia	76 (14.6 %)	22 (13.5 %)	31 (15.3 %)	23 (14.7 %)	
	Adriatic Croatia	164 (31.4 %)	50 (30.7 %)	59 (29.1 %)	55 (35.3 %)	4.08
	City of Zagreb	217 (41.6 %)	74 (45.4 %)	87 (42.9 %)	56 (35.9 %)	
	North Croatia	65 (12.5 %)	17 (10.4 %)	26 (12.8 %)	22 (14.1 %)	
<hr/>						
Is firm global?	Not global	494 (93 %)	154 (92.2 %)	191 (91.8 %)	149 (95.5 %)	2.119
	Global	37 (7 %)	13 (7.8 %)	17 (8.2 %)	7 (4.5 %)	
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Businesswomen are more represented in Cluster 3 – *Concerned*. It is interesting that Cluster 1 and Cluster 3 conform in all aspects except in opinion regarding large companies as a source of corruption and the negative influence of corruption on SMEs. Here businesswomen have a stricter opinion on the negative effect of corruption and on the negative role of large companies in generating corruption. Besides notable gender differences, Cluster 3 – *Concerned* is above the sample average composed of micro-firms (77%).

In the Cluster 1 – *Optimistic* managers and owners of middle- and large-sized firms are overrepresented, when compared to the total sample average. Consequently, large companies seen as a source of corruption in Croatia is an opinion more shared among members of Clusters 2 and 3. It is difficult to say from the survey data if this view of Cluster 2 – *Burdened* members partly comes from the larger size of the companies presented in their cluster, where they maybe were witnessing corrupt corporate business operations. The same experience-based reasoning may support this opinion of Cluster 3 – *Concerned* members, where the micro-firms and construction sector are above average presented.

3.6 Informal behavior

Once the typology of clusters has been established, detailed analyzes of attitudes and behaviors follow to shed light on businesspeople's opinions and informal practices in Croatia. For each cluster, we examine and compare three aspects: attitudes towards informality in business, respondents' assessment of the presence of informal practices, and respondents' tendency to participate in informal practices themselves.

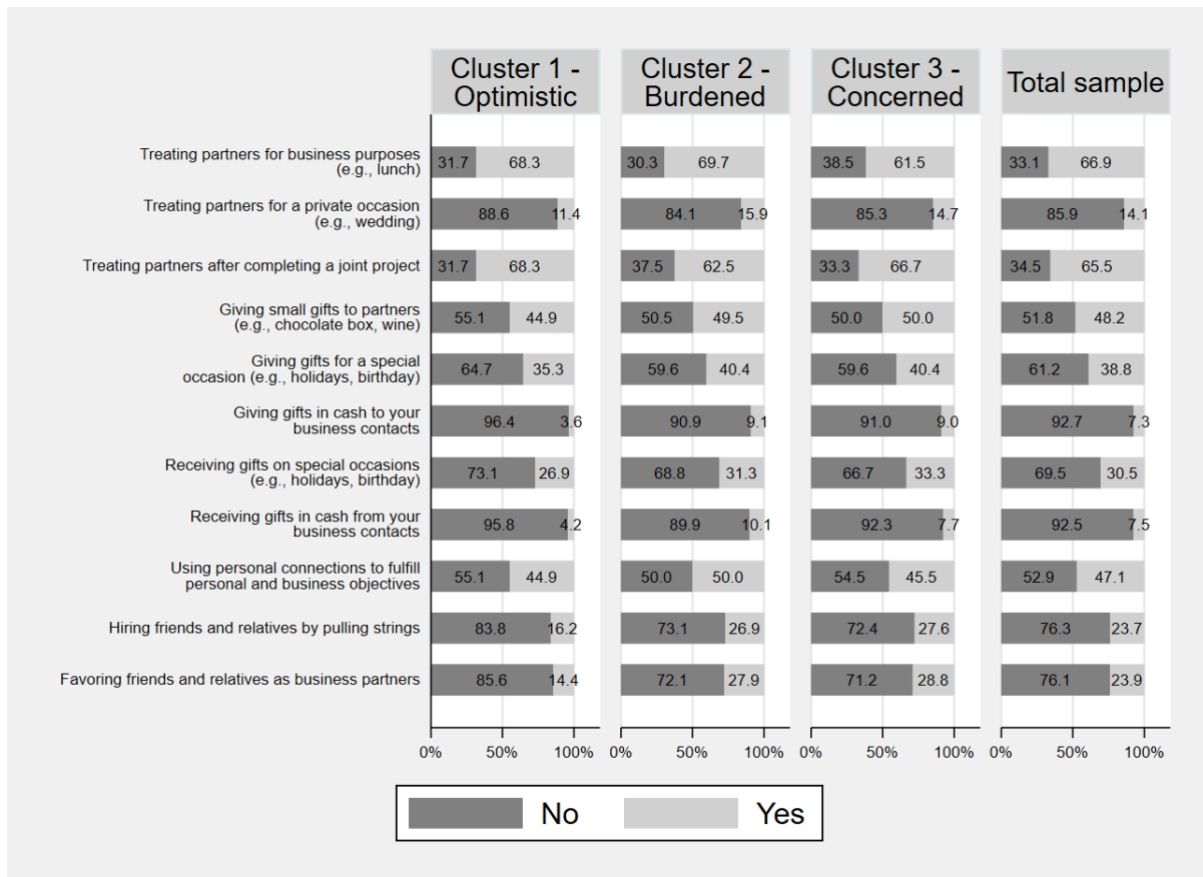
3.6.1 Attitudes towards B2B informal practices

Respondents generally think that treating (e.g., inviting for lunch) partners for business purposes is completely acceptable. As for receiving and giving gifts in cash, these practices are not acceptable for over 90 percent of Croatian businesspeople, in particular for Cluster 1 – *Optimistic* members (Figure 2). Generally, members of Cluster 1 – *Optimistic* are stricter about informal behavior when compared to the sample average. These respondents especially do not mix professional with private life - they are against celebrating with, or treating business partners for private occasions (e.g., birthdays, weddings, baptisms, etc.). They are similarly strongly opiniated against employment using private relationships and are highly unlikely to

favor people from their private life as business partners. This could be explained by the socio-demographic features of this Cluster (Table 3) – these respondents are highly educated professionals working in large and middle-sized companies in expertise-driven sectors like finances and IT.

On the other hand, Cluster 3 – *Concerned* respondents demonstrate some old-fashioned doing business practices and as such, do not have negative attitudes about hiring friends or relatives. Correspondently, they consider giving gifts to business partners as an acceptable and welcome practice. Attitudes of Cluster 3 – *Concerned* and Cluster 2 – *Burdened* members are slightly more in favor of informal practices - they tend to support giving gifts among business partners. This is especially evident in Cluster 2 – *Burdened* - every tenth member of this cluster believes that receiving monetary gifts from business partners is acceptable behavior, and half of them sees the use of personal connections for personal and business purposes as acceptable. These two clusters are more open to giving preference in business to friends and family (as opposed to the opinions of Cluster 1 – *Optimistic*). A likely explanation for this finding is that the members of Clusters 2 and 3 are above the sample average coming from micro and small firms, and because of that they are more likely to form personal relationships while doing business.

Figure 2. What are acceptable behaviors and gifts in business?



3.6.2 Perception of common informal practices

Figure 3 shows, according to the respondents, what type of gifts are common in the business milieu in which the respondents operate. This part of the survey addressed respondents' perception and their impression on existence and extents of informal practices in business, which can be best described as 'greasing the wheels'. Offers of business partnerships or block of shares in a company are both seen as common gifts in Croatian business community. Also, illegal gifts such as money or employment in the public sector are viewed as common *quid pro quo*. As the least common are gifts like luxury items and luxury travel arrangements. The previously expressed differences in attitudes between the clusters coincide with the respondents' assessment of the presence of informal practices. Thus, for example, members of Cluster 1 – *Optimistic* think that gifts in the business community are less common than what members of Cluster 2 – *Burdened* and Cluster 3 – *Concerned* perceive. For example, more than

60 percent of members of Cluster 2 – *Burdened* think ‘gifting’ a job in the public sector is common, compared to the same opinion of 37 percent of Cluster 1 – *Optimistic*. This describes a more pessimistic view of the presence of corruption in society among populations in Clusters 2 and 3.

Figure 3. What are the most common gifts in the business community?

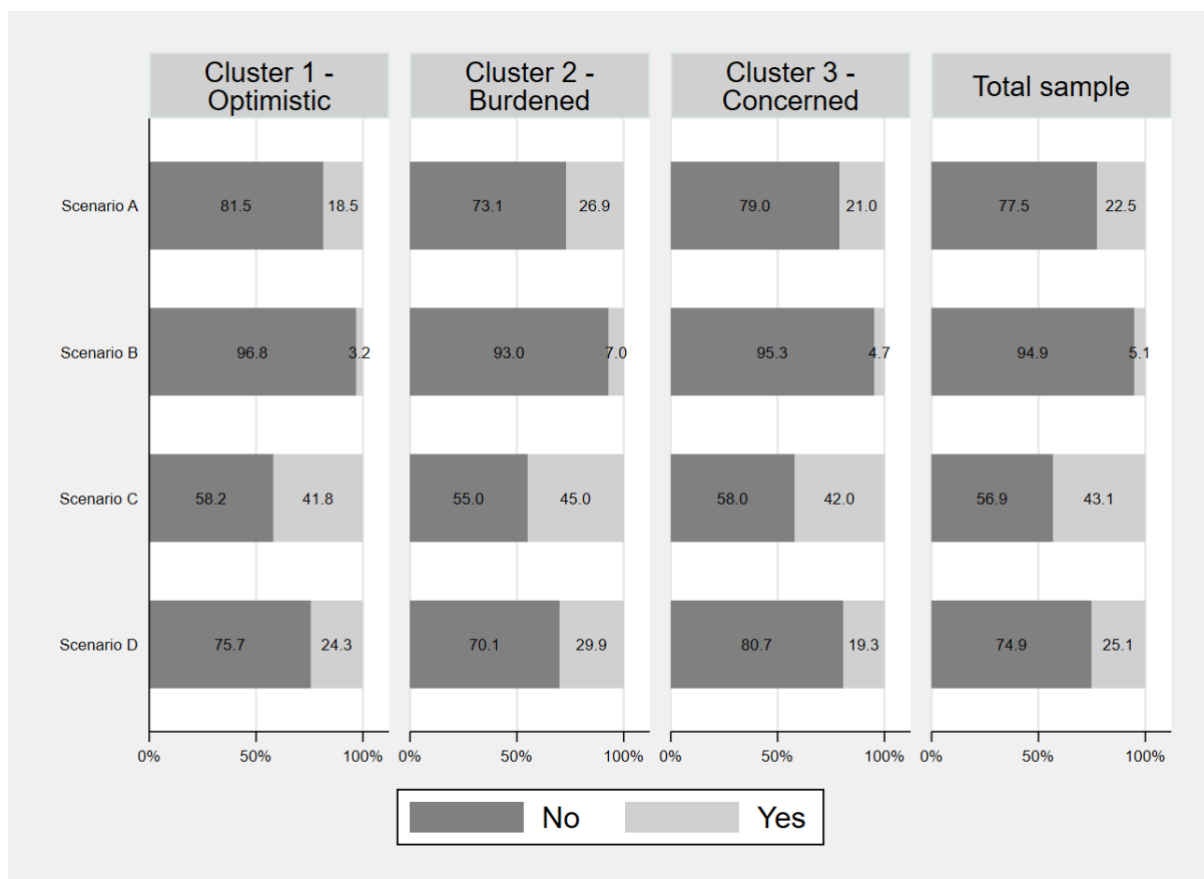


3.6.3 Propensity and tolerance for informal behavior

Negative attitudes towards informal practices, and fewer encounters or less experience with informal practices in their business community, seem to shape the propensity for informal behavior of businesspeople in Croatia. Hence, the propensity to accept and give gifts, to offer and receive favors, and to make unethical offers, is observed as the lowest among the members

of Cluster 1 – *Optimistic* (Figure 4). Surprisingly, and contrary to the previously expressed opinions of Cluster 1- *Optimistic*, all the clusters share similar reactions in the Scenario C (Figure 4), where they were asked about hiring business partner’s family member in exchange for preferential treatment for their respective firm. This indicates that nepotism still has strong roots in Croatian business. In all three clusters, approximately every second person would hire the cousin of the business partner. Also, all the clusters demonstrate the same lack of risk propensity (as evidenced in the Scenario D in the Figure 4), which supports the theory of radical egalitarian syndrome (Županov 2002; Burić/Štulhofer 2016).

Figure 4. Propensity for B2B bribes.



Notes: Different scenarios presented in Figure 4 include:

- E. After successfully completing a joint project, your business partner gives you as a gift an expensive hand watch (2,000 EUR worth). He gives it to you and only says that he will count on you in his future dealings. Would you accept this gift?
- F. Your business partner asks you for a favor: he will give you a block of stock in his company if you give him your storage for him to use. When you ask what he wants to store he doesn't want to disclose. Would you do him this favor?
- G. Your business contact asks you for a favor. He asks you to hire his cousin in your company. In exchange, he would offer you more favorable conditions in the contract between yours and his company. Would you hire his cousin?
- H. You are negotiating a business contract with one of your business partners. Before signing the contract, your business partner says that he will only agree to the current contract if you commit to working together on another future project. The details of the new project and contract are not known to you. Would you continue business cooperation with that partner?

3.7 Discussion and Conclusion

The most interesting views of firms' representatives are related to institutions. Respondents showed very low degree of trust in Croatian institutions but, at the same time, do not consider institutions as obstacles to their business. The perception of weak institutions thus remained consistent over the last 10 years, given that the same finding was reported by Budak and Rajh (2012) in 2012. Yet, the positive change is that, despite their perceived operating weaknesses and inefficiencies, the institutions are no longer seen as a problem, which used to be the case before (Budak 2007; Budak/Rajh 2012; Rajeev/Budak/Rajh 2015).

The businesspeoples' opinion about the role of the EU accession process in curbing corruption, in both state administration and in the business sector, is in line with the average opinion on the importance of Croatian institutions. It seems that institutions are considered weak and not relevant for business (paradoxically not even as obstacles for doing business in Croatia), and that the EU accession process did not contribute much to reducing corruption, as previously

evidenced for other CEE countries (Kartal 2014). This finding mirrors the reality of Croatian long-lasting EU accession process, where the last negotiation closed the (in)famous chapter 23 on Judiciary and Fundamental Rights that focused on the fight against corruption and organized crime (Vachudova 2019; Elbasani/Šabić 2018; Bojinović Fenko/Urlić 2015). Solving corruption was the final condition set by the EU for Croatia to join the EU, and as a demonstration of dedication to the EU accession process, the Croatian government famously arrested former PM Sanader on corruption charges in 2010, a year before signing the EU accession treaty. Therefore, from the Croatian businesspeople's perspective, the EU accession did not contribute much in curbing corruption.

The well-educated managers and owners coming from middle-size and large companies, operating in ICT and other propulsive sectors, where high level of expertise and professionalism is demanded, tend to use less informal practices in doing business. It can be assumed that due to the size of the company, financial resources available, and the necessary skills possessed by these individuals, informality may have lost its role. Internal company rules and skills-based outputs of these firms ousted the informal practices as their use was no longer needed. This indicates that large companies possess means to do 'clean' business and their internal practices should be adopted by small and micro firms as well – that may be the adoption of code of conduct, or better external regulations of firms' conduct. On the other hand, managers and owners from micro and small firms accept more informality in business. These firms usually do not have an internal code of conduct and typically rely on the business savviness of owners themselves. What is lacking in knowledge, expertise, organization, etc. is probably compensated by networking and engaging in informality within the business community in which they operate. The smaller the size of firms, the harder for them is to mitigate the corruption risk (for empirical evidence for Croatia see Goel/Budak/Rajh 2015, and

Budak/Rajh 2005). Ironically, firms' representatives, especially those coming from small and micro enterprises, believe that SMEs are more hit by the negative consequences of corruption and that large companies are corruption inciters in Croatia, even though our findings point it out to be otherwise.

Since most of the previous research on corruption in this region focused on political and grand corruption, this paper contributes to the literature on corruption in business, particularly in B2B relations. Also, these findings could be relevant when investigating corruption and informality in the wider context of doing business in East and Southeast Europe, principally in those countries that went through significant ruptures and transformations.

This article also offers managerial-related policy implications. The Croatian Chamber of Commerce, the Association of Entrepreneurs, and other business associations in Croatia, should promote anti-corruption standards and code of conducts among firms (and particularly among small and micro firms). The up-and-coming new industries – such as ICT sector, have potential to pave the way for the introduction and adherence to good governance standards in doing business. Even though still much perceived as sources of corruption, large companies should take the lead in this process. Moreover, since corruption presents a huge reputational risk, large companies should prevent it or mitigate it by applying better company communication strategies. Admittedly, this is unlikely to succeed as long as there are corruption scandals involving large companies such as Croatian national oil company INA.

Regarding the hiring processes, the findings show that these remain to be a hot problem in Croatia. The practice of hiring, particularly in the state-owned enterprises and the entire public sector, is based on the non-merit criteria, as previously found by Šimić Banović (2019). The

nepotistic practices are still not perceived by businesspeople as harmful as they should be, and as such present an obstacle for a vigorous development of the Croatian economy. For this reason, more scrutiny and transparency in the recruitment process would be required, which could be done either by better internal controls, or by external inspections.

Lastly, this research is not without limitations. Due to the complexity of the researched topics, there is a requirement for more in-depth investigation on corruption and informality among businesspeople. The sample acquired could be further analyzed quantitatively, which would provide more information by considering further influences from the formal-informal institutional dynamics, or from the specific determinants in Croatia. However, for the sake of readability and the theme focus, this was not done for the purpose of this article. Furthermore, the quantitative research approach, used for this article, managed to identify the scale of informality and corruption, but not entirely the social and political causes behind it. For this reason, further research of the same topics would be advised, however by using qualitative research methodology. Also, as it is common when researching controversial topics, the respondents may have been influenced by their cognitive bias. Although the questionnaire was designed not to be suggestive, respondents could have noticed that some of the questions ask about corrupt behaviors and did therefore, censor themselves.

The future research could go further as in deepening the analysis of corruption and informality perception among particular populations – for example doing research with the focus on gender, age, education level, firms' size, sector, and business performance. As seen in this research, these characteristics contribute significantly to shaping the perceptions and tendency to accept corrupt or informal behaviors as licit. This research focused on Croatian firms but the respondents from the government, public administration, and members of NGOs should be

surveyed as well to assess perceptions and insights into their actual behavior with respect to certain important decisions and consequences. Another avenue for research is supranational comparison with similar countries to identify which processes and phenomena influence the (non)existence and the extent of corruption and informality in business.

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3.9 Appendices

Table A1. Items used for latent constructs.

Latent construct	Items	Description	Mean	St. dev.	Min.	Max.
Trust in institutions (TRUST)	trust_courts	Trust in: courts	2.12	0.99	1	5
	trust_dorh	Trust in: state attorney office	2.25	1.00	1	5
	trust_aco	Trust in: state anti-corruption office	2.34	1.06	1	5
	trust_pros	Trust in: state prosecutor	2.38	1.05	1	5
	trust_kom	Trust in: communal office	2.29	1.00	1	5
	trust_police	Trust in: police	2.86	1.00	1	5
Regulation as an obstacle for business (REG)	obst_law	Business obstacles: legislation	2.85	1.32	1	5
	obst_LawWork	Business obstacles: labor regulation	2.83	1.28	1	5
	obst_LawProc	Business obstacles: startup procedures	2.86	1.33	1	5
	obst_AdminCosts	Business obstacles: administrative costs	3.16	1.35	1	5
	hinder_workinsp	Negative influence on firms: inspection	2.41	1.34	1	5
	hinder_taxauth	Negative influence on firms: tax authority	2.55	1.36	1	5
	hinder_customs	Negative influence on firms: customs	2.1	1.29	1	5

Crime as an obstacle for business (CRIME)	obst_Politics	Business obstacle: political situation	3.09	1.28	1	5
	obst_OrgCrime	Business obstacle: organized crime	2.96	1.38	1	5
	obst_PettyCrime	Business obstacle: petty crime	2.71	1.36	1	5
Institutions as an obstacle for business (INST)	hinder_courts	Negative influence on firms: courts	2.18	1.35	1	5
	hinder_dorh	Negative influence on firms: state attorney office	1.75	1.13	1	5
	hinder_pros	Negative influence in doing business: state prosecutor	1.61	1.02	1	5
	hinder_kom	Negative influence on firms: municipal services monitoring office	1.97	1.20	1	5
	hinder_police	Negative influence on firms: police	1.64	0.98	1	5
	hinder_aco	Negative influence on firms: state anti-corruption office	1.64	1.05	1	5

Note: Items were measured on a 5-point Likert scale ranging from 1 to 5 (for TRUST: 1 – Don't have trust at all, ..., 5 – I have full trust; for REG, INST and CRIME: 1 – Not an obstacle at all, ..., 5 – Very large obstacle).

Table A2. Exploratory factor analysis results.

Panel A: Eigen values

Factor	Eigen values	Cumulative eigen values	Percentage of explained variance	Cumulative percentage of explained variance
1	9.1005	9.1005	0.3957	0.3957
2	3.1471	12.2476	0.1368	0.5325
3	1.8503	14.0979	0.0804	0.6130
4	1.1827	15.2806	0.0514	0.6644
5	0.9983	16.2789	0.0434	0.7078
6	0.8897	17.1686	0.0387	0.7465
7	0.7482	17.9168	0.0325	0.7790
8	0.5866	18.5034	0.0255	0.8045
9	0.5379	19.0413	0.0234	0.8279
10	0.5093	19.5506	0.0221	0.8500
11	0.4455	19.9961	0.0194	0.8694
12	0.4095	20.4056	0.0178	0.8872
13	0.3400	20.7456	0.0148	0.9020
14	0.3197	21.0653	0.0139	0.9159
15	0.3077	21.3730	0.0134	0.9293
16	0.2928	21.6658	0.0127	0.9420
17	0.2513	21.9171	0.0109	0.9529
18	0.2381	22.1552	0.0104	0.9633
19	0.2299	22.3851	0.0100	0.9733
20	0.1981	22.5832	0.0086	0.9819
21	0.1794	22.7626	0.0078	0.9897

22	0.1303	22.8929	0.0057	0.9953
23	0.1072	23.0001	0.0047	1.0000

Panel B: Eigen vectors

Item	F1	F2	F3	F4
trust_courts		0.8275		
trust_dorh		0.8934		
trust_aco		0.8480		
trust_pros		0.8463		
trust_kom		0.6594		
trust_police		0.5627		
obst_law			0.557	
obst_LawWork			0.612	
obst_LawProc			0.643	
obst_AdminCosts			0.544	
obst_Politics				0.728
obst_OrgCrime				0.750
obst_PettyCrime				0.735
hinder_courts	0.751			
hinder_dorh	0.860			
hinder_pros	0.848			
hinder_kom	0.724			
hinder_police	0.783			
hinder_workinsp	0.515		0.639	
hinder_taxauth			0.719	
hinder_customs			0.632	
hinder_coc			-	
hinder_aco	0.803			

Notes: Principal factor method was used, and factors were rotated using orthogonal varimax rotation.

Factor loadings lower than 0.5 were dropped and are not reported (“-”).

Table A3. Item correlations and Cronbach alphas.

Latent construct	Item	Inter-item correlation	Item-rest correlation	Cronbach alpha	Alpha-if-deleted
Trust in institutions (TRUST)	trust_courts	0.5407	0.7129	0.881	0.8548
	trust_dorh	0.5063	0.8208		0.8368
	trust_aco	0.5229	0.769		0.8457
	trust_pros	0.5292	0.7543		0.8489
	trust_kom	0.5995	0.5525		0.8821
	trust_police	0.6043	0.5442		0.8842
Regulation as an obstacle for business (REG)	obst_law	0.4685	0.6656	0.865	0.841
	obst_LawWork	0.4609	0.6979		0.8369
	obst_LawProc	0.4684	0.6642		0.841
	obst_AdminCosts	0.5022	0.5382		0.8582
	hinder_workinsp	0.4774	0.6322		0.8457
	hinder_taxauth	0.4752	0.6365		0.8446
	hinder_customs	0.4903	0.5837		0.8523
Crime as an obstacle for business (CRIME)	obst_Politics	0.731	0.6803	0.857	0.8446
	obst_OrgCrime	0.5488	0.8198		0.7087
	obst_PettyCrime	0.718	0.6889		0.8359
Institutions as an obstacle for business (INST)	hinder_courts	0.6914	0.703	0.923	0.918
	hinder_dorh	0.6356	0.868		0.8971
	hinder_pros	0.6398	0.8572		0.8988
	hinder_kom	0.6927	0.7152		0.9185
	hinder_police	0.6688	0.7697		0.9099
	hinder_aco	0.68	0.7303		0.914

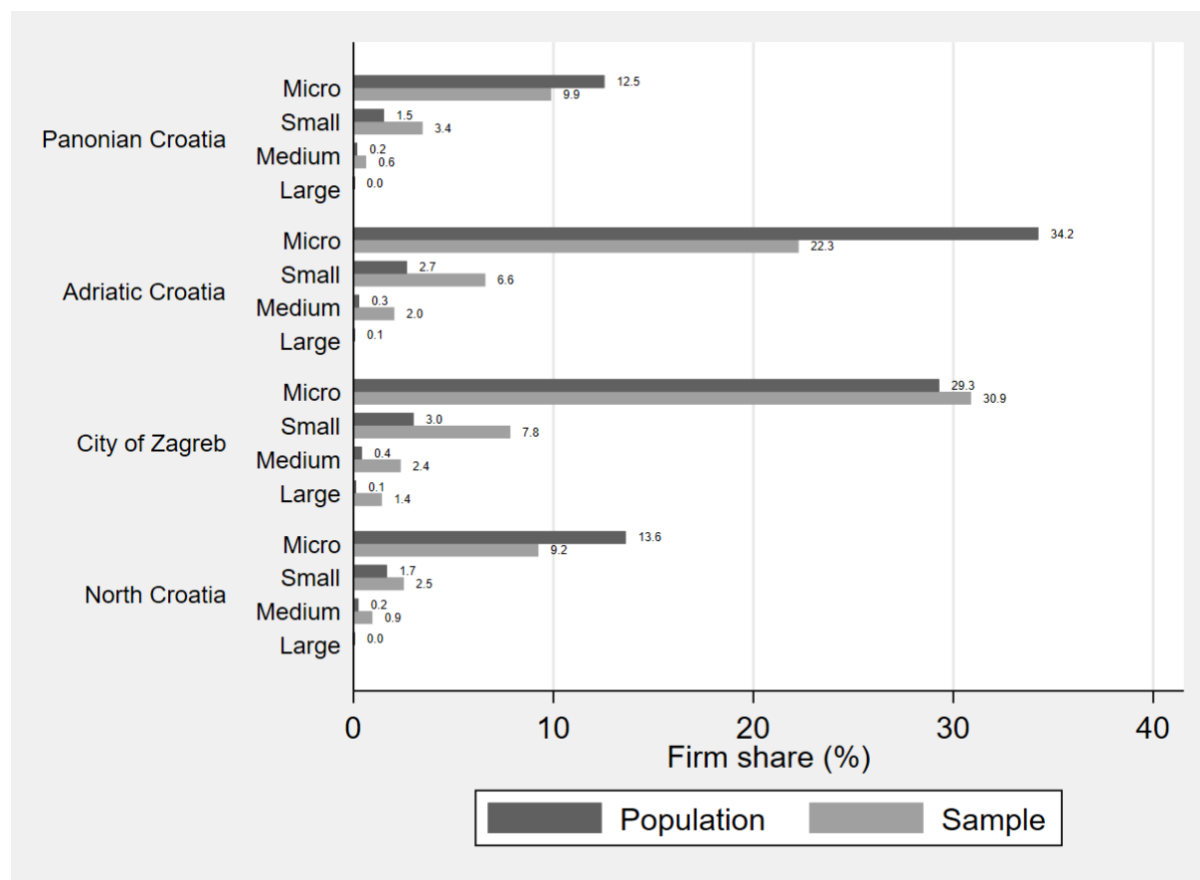
Table A4. Confirmatory factor analysis results.

Trust in institutions (TRUST)	
trust_courts	1
trust_dorh	1.131*** (0.049)
trust_aco	1.137*** (0.055)
trust_pros	1.034*** (0.057)
trust_kom	0.685*** (0.06)
trust_police	0.645*** (0.061)
Regulation as an obstacle for business (REG)	
obst_law	1
obst_LawWork	0.974*** (0.071)
obst_LawProc	0.949*** (0.077)
obst_AdminCosts	0.833*** (0.078)
hinder_workinsp	1.131*** (0.089)
hinder_taxauth	1.205*** (0.09)
hinder_customs	1.006*** (0.085)
Crime as an obstacle for business (CRIME)	
obst_Politics	1
obst_OrgCrime	1.397*** (0.083)
obst_PettyCrime	1.101*** (0.074)
Institutions as an obstacle for business (INST)	
hinder_courts	1
hinder_dorh	1.025*** (0.052)
hinder_pros	0.906*** (0.047)
hinder_kom	0.822*** (0.056)
hinder_police	0.735*** (0.046)
hinder_aco	0.807*** (0.05)

N	376
χ^2	958.27***
RMSEA	0.099
CFI	0.871
GFI	0.842

Notes: (***) denotes significance level $p < 0.01$. Standard errors are in parentheses. RMSEA = Root mean square error of approximation, CFI = Comparative fit index, GFI = Goodness of fit index.

Figure A1. Sample representativeness in terms of firm size and region.



4 Informal Ties to political Elites and Path Dependency in the Croatian agro Sector: a Study of the Corruption Scandals of Agrokombinat and Agrokor

4.1 Introduction

Business and politics have always been intertwined. Whereas a degree of separation has been achieved in developed economies, the ties between businesspeople and political elites do not seem to have weakened in post-socialist societies, which continue to suffer from authoritarianism and political rent-seeking (Šimić Banović 2015). Corruption and informal practices in these societies share a set of commonalities that first took root in the very similar

historical experiences of socialism that, despite local variations, developed lasting sociocultural patterns of behaviour and ‘ways of doing business’ (Županov 2002, 70-74). By exploring these commonalities, their permanence over time and across economic systems, as well as the costs and benefits of ties with changing political elites, historical and contemporary research can add value to the current challenges of the business community in Eastern and Southeastern Europe.

Strategic management and decision-making took place in a planned top-down manner in most socialist countries. Yugoslavia deviated somewhat from the standard form of the command economy by adopting a decentralized system of ‘socially owned’ enterprises that balanced the conventional forms of state ownership (Soulsby and Clark 2007). Moreover, the Yugoslav ‘market socialism’ was based on a system of self-management of workers and relied significantly on market mechanisms (Uvalić 2018). The role of managers was very important, as they had a substantial level of independence in decision-making and were hence in charge of companies’ strategic management. These managers had to run profitable businesses in a system that was nominally anti-capitalist - an endeavour that demanded a particular skillset of balancing performance and political realities (Bićanić and Ivanković 2017, 15). In order to evade the trappings of a dysfunctional system, managers often turned to informal practices that included building of informal networks, especially with the political *nomenklatura* (Clark and Soulsby 1999; Stark and Nee 1989). Despite the market liberalizations that took place in the early 1990s, patterns of informality remained ingrained in the organizational conduct. These legacies could therefore be viewed as constituent elements of path dependency within the business organizations of the post-transitional economies (Šimić Banović 2015, 187).

This research is a case study that explores and compares two Croatian corruption scandals, namely the Agrokombinat scandal from the 1970s, and the Agrokor scandal from the 2010s. These two companies are linked to one another: both Agrokombinat and Agrokor operated in

the same food and soft beverages retail sector, and the main protagonists of the two scandals, the two top managers of the companies, were father and son. The research aims to answer the following: What differences and similarities can be observed in the alleged abuses committed by the two managers and in their relations to the political elites? Can we identify patterns of path dependence on the example of two related companies? We aim to answer these questions by analysing both archival sources of internal Communist Party documents, from the Croatian State Archive, and the public corruption narrativization of the scandals through the media. More generally, we also aim to show the importance of learning the lessons from (business) history when operating in societies afflicted by political instability and informal practices. Following the introduction, we lay out the theoretical framework for analysing path dependence in a historical context and present the life cycles of the two corruption scandals of Agrokombinat and Agrokor. While the Agrokombinat scandal took place during the relatively stable Yugoslav governance, the Agrokor scandal had built up during two distinct political periods: socialism and post-independence capitalism. For this reason, this paper will also provide an insight into the transition period of Croatia and its particularities when compared to similar economies in the region. Moreover, for the purpose of clarity, the Agrokor scandal will be explained by following its transformation to the biggest company in the region during two stages: the insider-privatization of the 1990s (Šonje 2017) and the 2000s period of unconstrained debt-fuelled expansion and the vertical integration through many (risky) regional takeovers (Buckley 2017). We then compare the two cases and discuss the role of politics and informal ties, as well as path dependence, among elites in the Croatian business environment.

4.2 Theoretical Framework

Path dependence theory emerged as an alternative view of the neoclassical economic paradigm, which states that rational behaviours lead to efficient, and hence predictable, outcomes. Path dependency is thus a counter perspective on how individuals and organisations behave in an economic setting when they seem to be ‘locked-in’ by historical events and experiences (Liebowitz and Margolis 1995). This ‘lock-in’ situation creates fertile ground for irrational decision-making, which can thus lead to less-than-optimal results. As pointed out by Róna-Tas (1997), path dependence is based on two lock-in mechanisms: circular causation/self-reinforcing mechanism (Myrdal 1957) and mechanism of incongruous complements (Dahrendorf 2017). This means that one mechanism pulls in the actors and institutions in a positive feedback loop, where the old structures and behaviours are being reinforced, while the other mechanism allows for separate, but complementary factors to change at different pace in different time periods, and thus contributing to the lack of reforms. Adding to this analysis, path dependence is usually triggered by a critical impetus leading to a critical juncture – a significant developmental phase where historical events play a crucial role (Sydow, Schreyögg and Koch 2009, 690). In organizations initial choices and actions are rooted in previous ‘ways of doing business’, meaning that customs and practices reflect the tradition and the culture (Child 1997; March 1994; Tolbert and Zucker 1996). These phenomena create the institutions (and organizations) and are thus directly influenced by historical experience and imprints (Sydow et al. 2009, 692). Furthermore, path dependence may also be intentionally pursued and implemented if the costs of switching to another organizational path, or to unlocking, are too high (Garud and Karnøe 2001).

Since the aim of this paper is to explore institutional continuities in two different time periods and in two different companies (Agrokombinat and Agrokor), where two distinct political systems were in force (socialist Yugoslavia and independent Croatia), the path dependency

concept will be used to examine the relationship between structural conditions in which the companies were operating (macro level), and specific agency of individuals that were in position of power (micro level). The rationale behind using this approach is the acknowledgment that macro level conditions (institutional, legal, political, and economic) intertwine and interact with individual practices and agencies. Hence, the social reality is created through these interactions (Greener 2005).² By providing the context for the interaction of micro and macro levels, this research aims to expose the persisting factors of perpetuity in the organisational setting.

4.3 Methodology

By introducing the main theoretical concept of path dependency and the context of the explored scandals, the theoretical framework serves not only as an overall roadmap for the subsequent empirical analysis, but it also substantiates the Croatian context and the economic transitions that took place since 1960s. In order to explore the formal and informal ties of high-level managers with political elites and their path dependence in Croatia the case study method will be applied. A case study approach is particularly suitable for this research because it can provide the necessary information on the political and economic setting, as well as the details of the interactions between actors involved in the events. Its suitability for an in-depth analysis is one of the key advantages of a case study approach (Yin 2014), as well as the capacity to provide insights into causal relationships of the affairs in question (Jensen and Rodgers 2001). This work is based both on primary and secondary sources, with secondary sources being the previous scientific analysis of Yugoslav socialism and Croatian post-independence crony capitalism. Therefore, the qualitative analysis, while using the previous theoretical knowledge,

² This is also known as *morphogenetic social theory*. For more information see: Archer (1982, 1996a, 1996b, 1995, 2000).

is built on a collection of archival material, on a collection of media narrativization, and on interviews and statements of (in)direct participants of both scandals. Our analysis in the following sections is drawn from these rich narratives and accounts.

4.4 The Agrokombinat Scandal: Managing the Self-management

The 1960s in Yugoslavia were a period of transition from a rapid modernizing post-war recovery to an age of ‘conflicts of interest and ideological debates’ (Calic 2019, 213). A socialist market economy was emerging in a system of rising trade imbalances, ‘exporting’ of unemployment to the West and decreasing productivity of the worker self-management (WSM) system (Ibid, 213-218). Important economic reforms from 1961 and 1965 were only successful in worsening economic nationalism on the level of republics and ultimately led to a complete ‘economic and political disintegration’, which was codified in the new constitution of 1974 (Kežić 2017, 11-15; 32). Due to Yugoslavia’s special position between the East and the West, a partial integration into the world market through monetary reform and gradual domestic market liberalization based on capitalist principles, brought the worst of both worlds, namely increased consumerism, and low worker productivity. This consequently meant a sharp drop in the balance of payment from 1965-1970 and a simultaneous high rise in inflation in 1960-1970 (McFarlane 1988, 121-123). IMF loans were later used to stabilize the disbalances, but the price was (and still is) economic liberalization and austerity, that slowly led to a ‘capitalist restoration’ (Pantić 2021, 158-182).

The rise of Agrokombinat in the 1960s under the leadership of Ante Todorčić was a so-called ‘allowed deviation’ from the system of Yugoslav socialism, as this well-connected and high-ranking Communist Party member was allowed to run the company as if it were a capitalist enterprise (Petrović 2008, 94).

He was associated with the leaders of the Croatian wing of the Party, headed by Savka Dabčević-Kučar and Miko Tripalo. In the second half of the 1960s, it was the biggest agro-industrial complex in Yugoslavia (Evarazdin 2017). Three key factors led to this success, namely the fact that Ante Todorčić was a member of the Central Committee of the Communist Party of Croatia, that he was a member of the board of the main financier of Agrokombinat – the Zagreb Bank (*Zagrebačka banka*), and that he was a relatively capable manager (Večernji 2017).

4.5 The shelved Scandal

The Agrokombinat scandal was an exemplary case of the clash between two systems of values and their respective strengths and weaknesses. The first was the system of Yugoslav WSM, whose strength was a democratic bottom-up approach to managing an enterprise, where the workers performed both an oversight function towards the management and had a strong voice in the executive bodies. The inherent weakness of this system was the relative inefficiency of enterprises following these principles, as the workers' desires for higher benefits and better working conditions led to lower profitability. The other system was the capitalist top-down system of centralized managerial decision-making, whose main strength was (and still is) the profit-maximizing ideal. The downside of this system was (and still is) that it puts profit ahead of people (society and workers) and tends to give exorbitant privileges to the top managerial layers.

The Agrokombinat scandal started when the workers began to voice their dissatisfaction with how the company was run. In 1968, around 30 anonymous letters were sent by the workers to institutions ranging from the Office of the President, through the national and local Party chapters and even to the City Hall (HR-HDA-1220 1969). Sending anonymous letters of complaint to President Tito was a common practice at the time (Despot 2010, 11). These

numerous complaints resulted in the forming of an investigative Commission on the 14th of November 1968, whose task was to investigate the various claims outlined in the letters (HR-HDA-1220 1969). The main accusations in the letters were that (Ibid.):

- The company was run in a nepotistic manner by a few families.
- The members of those ‘family clans’ (*porodični klanovi*) were abusing their positions for material gain (houses, summer residences, apartments, cars, money, etc.).
- The system of WSM was de-facto abolished through procedural means.
- Several members of the ‘running clique’ (*rukovodeća ekipa*) came from *Ustaša* families or had family ties to the fascist WWII regime in Croatia.³
- The company was poorly run (wastefulness and bad working climate).
- The profits were exaggerated due to the monopolistic acquisitions of other truly well-run companies.

Following the initial success, the workers from Agrokombinat continued to send anonymous letters to all institutions (which would amount to over a hundred letters in total), during the work of the investigative Commission and around the period of the discussion of the Commission’s findings. In these letters the workers were hinting at where the Commission should look, in order to find evidence of corruption and nepotism, but were also accusing the Party leaders of being silent about the findings and thereby covering things up (HR-HDA-1220 not dated). With appeals like: ‘Long live the truth’ and ‘help the workers’, they demanded to be ‘freed from the clique of the dictator and thief A. Todorčić’ (Ibid.). The climate in which these demands were taking place was very conducive to such demands, as the main themes in the public debate closely mirrored the claims of the workers. The newspapers at the time were reporting on the many economic difficulties of the period, growing power of the managers and

³ This aspect was quite important, as previous studies of corruption in Socialist Yugoslavia highlight that corruption was never criticized as mere greed or a violation of formal rules, but also as a display of false political orientation. See: Buchenau 2021:93.

bureaucrats, as well as the need for the plurality of opinion and the strengthening of the WSM system (Vjesnik 1969). In the local media, the workers were quoting smaller publications that were writing about the concrete case of corruption in Agrokombinat, as the result of growing problem of ‘manager-ism’ (*menadžerizam*) trumping the values of the Yugoslav system of WSM (Moslavački List 1969).

Shortly after the report of the financial inspection was published, the workers sent another anonymous follow-up letter to the Office of the President. In this letter, they asked for the cover-up to stop, as they claimed to know that the Commission has finished the report, while they are kept uninformed by the ‘terror of the clique around director Todorčić’ (HDA-1220 1969). They also added that it is their opinion that the reason for stalling the report was ‘that some prominent people from the Central Committee of the Communist Party of Croatia (*Komunistička partija Hrvatske* - KPH) were extracting a lot from the company’ (Ibid.). A copy of this letter was promptly forwarded by the Office of the President, to the aforementioned KPH. The report in question, being almost 60 pages long, was completed in June 1969 and was a review of business practices in Agrokombinat by financial inspectors for the period 1965-1968 (HR-HDA-1220 1969). The report provided one of the most detailed descriptions of the *modi operandi* of grand corruption in Yugoslavia in that period. It outlined how value was extracted from the company by the top management, from high level financial schemes, dubious property sales (housing and vineyards), tax avoidance, off-the-books black funds, exorbitant travelling expenses and a whole range of lower value extraction schemes (Ibid. part 1, 2-58). The second part of the report contained the remarks by the company leadership regarding the findings of the inspection, in which they (in a very unconvincing manner) used the argumentation of ‘the greater good’, according to which their actions led to technical improvements and modernization, being in the ‘long-term interest of both the wider community and the workers collective’ (Ibid. part 2, 3).

Leading up to the meeting of the Commission in October 1969, where the conclusions of the report were to be discussed, and to counter the efforts of the workers and the media, director Ante Todorčić together with the presidents of the Agrokombinat's executive board and the Workers Council sent a letter of their own to fellow Party comrades (HR-HDA-1220 1969). According to the workers, these bodies were run by people loyal to director Todorčić. In this letter the arguments of the financial inspection were dismissed as 'groundless hysteria' (*bezrazložna fama*) or 'constructions', and the comrades were encouraged to focus on the results achieved by the company (Ibid, 1). The main argument laid out was that due to the technical modernization, implemented by the current management team, the company was twice as profitable as its comparable competitors from Croatia and Serbia. The letter was concluded with a subtle threat, where the management team asked for 'equal treatment and support from all socio-political factors', highlighting that if such a support was not given, the responsibility would also be carried by 'those factors' (Ibid, 2). This threat did have some grounding in the economic situation in Yugoslavia where problems with liquidity and profitability were highlighted as being as important as theft and corruption. Scandals in other major companies and conglomerates usually came in tandem with great economic difficulties, which Agrokombinat did not seem to have at the time (Politika 1969).

The probe into Agrokombinat ultimately ended with two very different positions towards the state of the company and the quality of its management. On the one hand, the Commission of the City Committee of KPH Zagreb found the inspection report convincing and listed their key conclusions as (HR-HDA-1220 1969, 6-9):

- Nepotism and family ties being present and permeating leading positions in the company.
- Convincing evidence of abuse of office for material gain by director Todorčić.
- WSM effectively abolished.

- The positive results that the company was reporting were possibly resting on false premises and ‘glorifying’ (*glorificirajući*) reporting.

In addition to these conclusions the Commission suggested actions for fixing, what they labelled, the ‘socio-political deformation’ by a series of remedies, most important ones being (Ibid:10-12):

- Excluding Ante Todorčić from the Party.
- Firing Ante Todorčić and the rest of the management team.
- Referring the findings of the inspection to the Prosecutors office in order for criminal charges to be raised.

In general, the Commission saw itself as a defender of the Yugoslav WSM system, by confronting the ‘techno-managerial theories’.⁴ On the other hand, around the same time, at the meeting of all Party members of Agrokombinat, the opinion towards the Commission and the management was significantly different. The opinion of this assembly was that the conclusions and suggestions of the aforementioned Commission were ‘anti-democratic and anti-self-managerial’, using methods of intimidation and hurting the WSM by not letting the working people of Agrokombinat solve their own problems (HR-HDA-1220 1969). In this creative way, the Commission was framed as being the problem by meddling in the affairs of the company. In addition, this assembly accused the Commission of creating a ‘tendentious campaign’ in the public, to discredit the results achieved by the workers of the company (Ibid.). They also concluded that their impression was that this was being done due to ‘personal and careerist intents’ by spreading ‘disinformation’ to hurt the image and interests of the company (Ibid.). It seems that this effort of counter attacking and discrediting the Commission, together with appeals towards the importance and results of Agrokombinat succeeded in muddying the

⁴ At this time, the so-called techno-managers were blamed for the poor results of the Yugoslav companies and by extension the Yugoslav economy. This managerial class was usually composed of post-war educated economists advocating for policies based on neoclassical economic theory, which clashed with the socialist WSM system.

waters. The press generally reported on the issue as a problem of ‘differing assessments’ (Politika 1969). This relativization of the problem, together with the mobilization of support within the Party, meant that Ante Todorić succeeded in avoiding criminal charges and staying on as the director of Agrokombinat.

4.6 Croatian Spring Cleaning – The Campaign against Liberals and Techno-managers

The downfall of Ante Todorić came a few years later and due to larger socio-economic and separatist events that took place in the beginning of the 1970s. The so-called ‘Croatian Spring’ of 1971 was a massive nationalistic uprising in Croatia, nominally advocating for economic nationalism, but essentially being a separatist mass movement, articulated through a fractionalist power-struggle within the Party (Zubak 2005, 194-200). Director Todorić was connected with the losing fraction of this power-struggle, namely the Croatian nationalist wing headed by Savka Dabčević-Kučar and Miko Tripalo, the same people that the workers of Agrokombinat were personally addressing for covering over the crimes of Todorić in the anonymous complaints from 1968-1969. The ‘spring cleaning’ of KPH took place following the 28th Congress of the Central Committee of KPH on May 8th 1972, where based on the report describing ‘the penetration of nationalism’ within the KPH, the entire leadership of the Croatian branch of the Party was excluded (Večernji List 09.05.1972). Director Todorić was excluded from the Party a little more than a month before the 28th Congress, accused of being a part of a ‘techno-managerial structure, being the foundation of anti-self-management tendencies and a penetration of nationalism and chauvinism’ (Večernji List 25/26.03.1972). The new leadership of the Croatian branch of the Party had to ‘accept the political responsibility’ for not acting more decisively against the abuses at an earlier stage and initiated a new assessment of the, now mounting, financial problems created under the deposed

leadership of Agrokombinat (Ibid.). The criminal investigation and the arrest of Ante Todorić and others from the management team took place in September of 1972, on the charges of ‘financing counter-revolutionary activities, abuse of public office and theft of public property’ (Večernji List 13.09.1972). The trial lasted from 12.09.1973 to 23.04.1974 at the Municipal Court in Zagreb and was surprisingly covered quite sparsely, compared to many similar trials, by the Yugoslav media (Politika 1973; 1974). Ante Todorić was convicted to 13 years in prison, seizure of all of his property, as well as a ban on having a managerial function in a span of 5 years following the completion of his prison sentence (Ibid.). Eventually the appeal to the Supreme Court in Croatia led to a reduced sentence and the overturning of the political aspect of the sentence, letting Ante come out of prison in 1977 (24 sata 2018).

The fall from grace of Ante Todorić also intersected with an anti-corruption campaign, later dubbed the campaign against liberals and techno-managers. The reason why the fight against corruption was waged through campaigns, rather than a continuous effort of the judicial system, was due to the subordination of the state institutions to the political apparatus (Cvetković 2011, 112-113). In the highly confidential report by the Federal Secretariat for Internal Affairs, titled ‘The report on enemy activities directed towards the undermining of the economic foundation of society’ from 1974, the case of Agrokombinat was highlighted as not simply being a matter of corruptive activities, but corruption for the purposes of directing capital out of country and towards extremist Croatian emigrés (Arhiv Jugoslavije 803 1974). In the confidential diplomatic cables ‘published’ by Wikileaks, the assessment of the US diplomatic staff from the Belgrade Embassy was that the reasons behind the initiation of the Agrokombinat scandal were ‘both economic and political in nature’ (US Embassy Belgrade 1973). Scapegoating of ‘individuals in positions of leadership who are ultimately vulnerable for past mistakes or, more often, who fail to get on the current bandwagon quickly enough’, was done according to US diplomats in order to show proof to the population (mainly workers

and the youth) of the seriousness of the fight against corruption (Ibid.). In later cables, this anti-corruption campaign would be referred to as ‘spring cleaning’, a relatively cautious ‘tightening-up’ by Tito (US Embassy Belgrade 1974).

4.7 From Socialism to Capitalism: Historical and Institutional Context in Croatia and Southeast Europe

Before we address the Agrokor scandal, it is necessary to provide essential information on the political and economic backdrop of the Croatian transition from socialism to capitalism. The rise of Agrokor coincided with several historical transformations for the Croatian state – economic transition from socialism to capitalism, privatization, war for independence and democratization. These processes impacted Croatia socially, politically, economically, and culturally.

Capitalism in Croatia started its evolution in the late 1980s with the economic reforms introduced by the Ante Marković government in order to achieve more efficiency of the Yugoslav economy after several years of economic stagnation.⁵ The 1980s were a decade of ‘declining output, negative rates of investment growth, rising unemployment and increasing inflation’ (Uvalić 2018, 24). Therefore, the government introduced several important measures like removal of existing limitations on private property, push for the growth of the small-sized private sector, introduction of duty-free imports on foreign technology, and other measures necessary for the encouragement of entrepreneurial activities (Ibid, 27-28). These economic reforms led to a novel form of the Yugoslav economic system that was based on political structures and could thus be called political capitalism (Cvijanović and Redžepagić 2011). As the federal state and its structures collapsed, the new political ones emerged. These structures, or political elites, contributed in what was later described as post-independence clientelist

⁵ For more details see: Lydall 1989; Dyker 1990; Mencinger 2000.

capitalism, or crony capitalism (Bićanić and Franičević 2003, 16), a new type of capitalism that evolved in Croatia (Ibid.). Transition and privatization thus occurred in an environment where previously established political connections were replaced by widespread clientelism, which was based on close relationships and corrupt activities between political elite and businesspeople. Accordingly, the business practices and exchanges were path dependent as they were firstly founded on political ties in the communist period, and later on informal networks, which were re-created in a political vacuum of transition and were based on ‘traditions, customs, moral values, religious beliefs and all the other norms of behaviour that have emerged spontaneously, survived the test of time and served to bind the generations’ (Pejovich 2008, 11). The presence of political instability, which decreased institutional and economic certainty, allowed for the establishment of cronyism that was based on both backward and forward integration of political and business elites (Haber, Maurer and Razo 2002). Bartlett summarises this situation by calling it ‘business capture’, where political and business connections weaken the business performance and competitiveness of firms, and thus negatively impacting the development of the whole economy (Bartlett 2021).

The dissolution of Yugoslavia, and the subsequent wars, led to a disintegration of the former federation’s market, which resulted in a collapse of a vast number of Croatian companies, and in the loss of hundreds of thousands of jobs and to an overall economic breakdown. Before 1990, Croatia was more dependent on the Yugoslav single market than on the exports to third countries, with Croatia having on average 3.19 times higher total sales in the single market than abroad (Kotarski and Petak 2019). Thus, the loss of markets and troublesome privatization process posed together a major challenge for Croatian leadership and finally to Croatian people. Therefore, even though privatization as a radical change in ownership structures was essentially an economic policy, it had also greatly affected society, its elites, and shared values (Pehe and Sommer 2022; Štulhofer et al. 2008). Consequently, transformation and privatization

are today viewed as a dominant theme of historical memory, which had a central role on the formation of current relations in Croatia (and in the former socialist societies) (Wawrzyniak 2019; Hilmar 2021). The privatization process in Croatia was mainly marked by tunnelling (asset stripping), state's preference for single ownership of privatized companies, legal irregularities and non-transparency, and postponement of unpopular structural reforms (i.e., solving over-employment, heavy external financing, technical and technological lagging behind, etc.) (Nusinović and Teodorović 2002; Ivanković 2017). The aforementioned malversations during the privatization process happened mainly due to the war that lasted until 1995 in Croatia, due to the lack of rule of law and due to the autocratic rule of one man, Croatian president Franjo Tuđman and his party, Croatian Democratic Union (*Hrvatska demokratska zajednica* - HDZ) (Bićanić and Franičević 2003, 11-14). In Croatia, this political and economic period is anecdotally known as the 'politics of 200 families' (*politika 200 obitelji*) – a special type of transition, introduced by Tuđman, where in the 1990s, Tuđman and his clique would select 200 families who would take over the political and business leadership of Croatia – effectively capturing the state.⁶ Finally, the political events of the 1990s caused a postponement of many of the economic reforms necessary for the transition to a resilient market economy (Uvalić 2012).

Furthermore, to comprehend the transition processes that happened in Croatia, it is necessary to address the historical and regional context and compare the developments in Croatia not with normative models, but with the real-life situation in other post-socialist countries in the region. For this purpose, we briefly address situations in Slovenia, Bulgaria, Romania. There are three factors that can be acknowledged as causes of Croatia's flawed and rocky transition when compared with aforementioned countries (Uvalić 2012):

⁶ There is no evidence that Tuđman ever said this, however the '200 families' narrative entered the Croatian folklore and it still remains a common reference to the privatization period of the 1990s. More about it here: Ivanković 2017.

- Political situation – military conflicts, population displacement, economic instability, rise of authoritarianism.
- Delayed EU integration – political isolation, lack of financial support, lack of EU political pressure for the purpose of integration (EU conditionality).
- Inappropriate economic policies – faulty transition strategies applied both internally and pushed upon by foreign (international) financial organisations.⁷

As in the entire Eastern Europe, the initial measures of transition had adverse social effects in Yugoslav countries, however, these were later worsened as Yugoslavia entered wars, suffered sanctions and international isolation. This heavily affected Croatia, while Slovenia had not suffered as much due to the quick end of hostilities on its territory and due to the swift pro-European political orientation.⁸ Bulgaria and Romania similarly immediately after the fall of communism made political objective to join the EU. As a consequence, all three countries entered the EU in 2004 and 2007, while Croatia entered only in 2013. This mirrors the long-lasting and tedious EU accession process in Croatia, where the country's leadership had to deal with solving post-conflict conditions, which did not exist in Slovenia, Bulgaria and Romania (e.g., cooperation with the ICTY, minority rights, protection of minorities and issue of refugees) (Bojinović Fenko and Urlić 2015). But this was not the only problem – Croatia also 'suffered' from the EU's experience with the 2004 and 2007 enlargements, and the EU's concern about its absorption capacity. This was because in some countries, particularly in Romania and Bulgaria, there had been obvious rise of corruption and organized crime *after* the EU accession (Kartal 2014; Alfano, Capasso and Goel 2021). For this reason, the EU became

⁷ These policies were based on the neoliberal recommendations known as a 'Washington consensus' (Williamson 1990). Previously implemented in other transition countries, with many negative social effects, these had particularly adverse effects when introduced in societies burdened by wars (like former Yugoslavia).

⁸ Slovenia signed the EU Association Agreement already in 1996, and thus managed to benefit early on from the EU PHARE aid programme and to profit from EU pre-accession funds. These prepared Slovenia for the EU membership in 2004. Slovenia was the only ex-Yugoslav country that entered the EU in 2004. Croatia had to wait until 2013, while the other countries are still only candidates for accession.

wary of the quick accession and thus pushed for more scrutiny in the case of Croatia.⁹ So, it can be noted that the Croatian situation was not unique *per se*, and that other countries had to deal with corruption as well. However, the post-conflict position of Croatia in many ways affected (delayed) the country's European integration and its approximation to the Western liberal system.

4.8 The Agrokor Scandal

In 1976 Ivica Todorić started his own private business - growing and selling flowers. In 1977, after completing his prison sentence, Ante Todorić joined his son, Ivica, in running their family business named 'Agricultural trade Ivica Todorić' (*Poljoprivredni obrt Ivica Todorić*) (Klepo 2017, 3). The son and father did well and by the mid-1980s their business expanded and employed 50 workers, which was an achievement in a system that ostensibly limited private enterprises (Bićanić and Ivanković 2017, 15). As a consequence of a growing business, in 1989, and in line with the Yugoslav market reforms, Ivica founded Agrokor as a joint stock company. The federal laws enacted in 1989 allowed for private ownership and thus made room for private initiatives. These also allowed for ownership transformation of the "social" enterprises (self-management organizations). Federal laws in the pre-transition former Yugoslavia already permitted some forms of private entrepreneurship, namely in the agriculture and services sector. Nonetheless, these laws were also limiting private entrepreneurship, mainly in terms of company size. However, the post 1989 measures were a significant impetus for business and made a deep impact on the structure of the Croatian economy (Bićanić and Franičević 2003, 6). Ivica Todorić had thus used the momentum and the reforms to further expand his business.

⁹ The EU's final condition for Croatia to join the EU was the issue of solving corruption. Croatia's dedication to the EU membership was famously demonstrated in 2010. when the government arrested former PM Ivo Sanader on corruption charges. This happened one year before signing the EU accession treaty.

Noteworthy for the analysis of these scandals is to point out the familiar relationship between the two Todorićs – father Ante and son Ivica. It is safe to assume that Todorić Jr. inherited the business idea, political and banking connections, and probably the initial capital, from his father Ante (Filipović 2017). Without that, he would not have been able to build Agrokor to become what it eventually became. The importance and influence of Todorić Sr. in the former socialist system and at the beginning of independent Croatia was recalled by Stjepan Mesić and Josip Manolić, the first two Prime Ministers, in their testimony before the parliamentary investigative commission for Agrokor (Mesić in Nacional 2017).

These informal (political and business) networks developed by Todorić Sr. came to Todorić Jr. as an ‘inheritance’ (Ledeneva and Efendić 2022). When Todorić Jr. was starting his business, his father had done most of the job for him – he had in fact opened business channels and networks that were as functional for Todorić Jr. as if he had built those himself. In high trust environments, such as family circles, social capital can be transferable (Ibid, 21), which can be observed in the cases of two Todorićs. Absurdly, similar to their rise was their downfall: in the 1970s the Agrokombinat collapsed in just a few months, when Ante Todorić was imprisoned, due to having company’s growth based on excessive borrowing and issuing promissory notes, which would later be copied by the son Ivica. So, it can be concluded that Ivica copied his father’s management style and failed the same way his father did. Also, the risk propensity is a trait that both men demonstrated.

In the beginning of 1990s, Agrokor secured a privileged position on the domestic market with the obvious help of the ruling elite: unrestrained agricultural subsidies, insider privatization, lax enforcement of competition regulations in favour of Agrokor, lax enforcement of payment regulations to suppliers, conflict of interest by employing former and future political figures (revolving-door policy) (Paparella 2012), and lax enforcement on party financing (predominantly of HDZ) (Kotarski and Petak 2019).

Todorić was already in the beginning of the 1990s an important factor in the Croatia's privatization process: by 1993, he had already purchased several state-owned enterprises and in 1993 he transformed Agrokor into another joint stock company, Unikonzum. Unikonzum was at that time the biggest retailer in Croatia. The following year he bought the stocks from the employees and again changed the name of Agrokor – or Unikonzum – to Konzum, which became the biggest retailer in the region. Following this success, Todorić continued to acquire companies from the agro-sector, namely Jamnica, Ledo, and PIK Vrbovec, all major companies with big market shares. Todorić's success in expanding his business during one of the harshest periods for Croatian nation – privatization and war, made him a friend and a foe to the Croatian people. On one hand, he was a subject of the speculation that he was deeply involved with political elites, which gave him preferential treatment (Juričan 2016):

There is a photo in which Ivica (Todorić) presents 73 reels of jaeger to Franjo Tuđman for his 73rd birthday. And (wife) Ankica Tuđman was at the opening of the first Superkonzum in 1995. Daughter Nevenka (Tuđman) made ice cones for Ledo. As a skilled merchant, Ivica knew that in order to advance, he had to be good with Tuđman. (Juričan in Županjić 2017)

The privatization process was deemed to have been rigged, due to the many irregularities and low sums for which the state-owned companies were sold. As noted in 1992 in Croatian *Globus*:

Agrokor trades in strategically important goods, wheat, corn, even oil, obtains preferential bank loans and clearly enjoys the special favour of the state Agency for Restructuring (the predecessor of the Croatian Privatization Fund, A/N), Which allows Todorić what others are denied from doing - the purchase of well-to-do social enterprises. (Županjić 2017)

On the other hand, Todorić was hailed by the government as a Croatian hero who creates jobs and economic growth and helps consolidate the Croatian economy. In a way, his personal

success was viewed as a national accomplishment of the new non-socialist and non-Yugoslav Croatia (Milojević 2017).

These aspects, combined with inapt and unchecked corporate governance, led by one man – the owner Ivica Todorić, poor cost control, and an easy access to domestic bank loans, that were continuously used to expand the business while creating new debt to service the old, and together with ever falling revenues and diminishing profits, eventually led Agrokor to its demise.

4.9 The mature Agrokor of the 2000s

Even though Todorić nurtured good relations with the ruling regime during the 1990s – namely with Tuđman, the autocratic president of Croatia, and with the Croatian Prime Minister Nikica Valentić, Todorić's school friend (Okić 2017), the more significant rise of Agrokor started happening only after the privatization process ended – beginning of the 2000s. In the first decade of 2000s Agrokor acquired some major regional companies, achieved a true vertical integration and employed 60.000 workers in 2017, with annual revenues of €6.5 billion, thus accounting for approximately 15 percent of Croatian GDP (Juričan 2016). The expansion created a situation where Agrokor *de facto* held a monopoly in the Croatian agriculture market (Pavičević 2015). However, the Croatian Competition Authority never really reacted upon this fact. According to Drago Munjiza, Director of Konzum 2002-2007, Agrokor's monopolistic position in the market was natural because there was simply no competition and because Croatia was a small market (Munjiza in Juričan 2016).

This expansion was characterised by two strategies: 'from the field to the table' (*od polja do stola*) and regional dominance, especially in the ex-Yugoslav markets. Both strategies were politically coloured and as such inevitably drew support from the regime (Šonje 2017). Šonje goes even further and calls these strategies economic nationalism, which fed on the

nationalistic policies pursued and implemented by the post-war Croatian governments (Ibid.). At the same time, Todorić was buying out Croatian companies that were not worth investing in as they were outdated and unprofitable (for example Vrbovec, Belje, Vupik), as well as investing in the economically backward regions Slavonija and Baranja. For this, on one occasion, former Croatian Prime Minister Jadranka Kosor said she would hire Todorić to be a part of her government, while commenting how much good he was doing for the Croatian economy (Government of Republic of Croatia 2010). So, it can be observed that Todorić was used by the government to demonstrate the economic success achieved during their mandate. This was a symbiosis that served both sides – preferential political treatment for Todorić and votes for the political elite:

Todorić did not become Todorić because he had a lot of money, in fact he was a structure that began its inception in the time of Franjo Tuđman, when the state decided that it was good to have such a strong dominant regional player. Todorić is a project, in the time of Račan, Kosor, Milanović, Sanader (Croatian prime ministers, A/N). Every illegality passed, regulations were changed, companies were sold for one kuna, the Government forgave hundreds of millions of kunas in debt, various machinations were carried out. Now we see him standing alone on the side, no longer a god but a blog (više nije bog nego blog, A/N). (Ćimić in Podcast Inkubator 2017)

Eventually, even though many considered Agrokor too big to fail, the reality proved otherwise. The uncontrolled borrowing for an over-expansion that was both risky and miscalculated could be observed from Agrokor's massive debts: in the period 2003 - 2016 Agrokor amassed €3.5 billion of debts to creditors and €2.2 billion of debts to its suppliers. These debts totalled six times Agrokor's equity (Buckley 2017). This situation was caused by Todorić directly since he controlled the parent company of Agrokor, Adria Group Holding B.V. Netherlands, with a 95,25% of share ownership. These aspects reveal the fact that Agrokor was not a sustainable

business, that the financial reports had been fallacious, and that the company was not a valuable asset for the Croatian state (The County State Attorney Office Republic of Croatia v. Ivica Todorčić, 2018). In addition, Agrokor's leadership could have hurt the state and could have caused a massive economic shock to an already weak economy. Martina Dalić, former Deputy Minister and former Minister of Economy, called the Agrokor crisis the biggest national crisis since the Croatian war for independence (Vresnik 2018). So, the stakes were high. For this reason, the political tide had turned against Todorčić for the first time after nearly three decades. In January 2017, the Moody's Investors Service downgraded Agrokor's corporate rating to B3 from B2. The reason for this is the fact that the company's revenues in the first nine months of 2016 fell by 2.2%, with a further increase in financial costs in the amount of 3.9% (Klepo 2017:5). Hence, it became evident that Agrokor was over-indebted to the point it could no longer service its debts. A bank consortium (BNP Paribas, Credit Suisse, Goldman Sachs, JP Morgan) that was supposed to finance Agrokor with yet another short-term debt of €500 million, decided to postpone this payment. All in all, the company was simply unable to service its debt and as such a bankruptcy was looming (Milojević 2017).

In order to prevent the total collapse of Agrokor, and relatedly the collapse of Croatian economy, the Croatian state intervened by activating the Extraordinary Administration Procedure on 10th April 2017, pursuant to the Act on Extraordinary Administration Procedures in Companies of Systemic Importance for the Republic of Croatia (*Lex Agrokor*) (Narodne Novine 32/2017). The *Lex Agrokor* allowed the Government to appoint a special administrator, Ante Ramljak, to examine the financial situation and to basically restructure the company, essentially bypassing standard insolvency procedures (Đurić and Jovanović 2019). Ramljak hired PwC to do an audit. Their report found huge inconsistencies and irregularities in accounting that showed that in 2016 Agrokor made a loss of €1.5 billion (Agrokor 2017). This

was in a stark contrast to what Todorčić had previously claimed and a far cry from the Agrokor that was deemed as the main engine of the Croatian economy.

The investigation on the misdoings of Agrokor's management (Todorčić, his two sons Ivan and Ante, and 12 other high ranking company managers) was assigned by the Government to the Zagreb regional tribunal and not to USKOK (Croatian Anticorruption Agency) (Prelec 2018). This meant that the prosecution was not intended to inquire into the alleged corruption crimes, but only the corporate crimes, which included abuses in business operations amounting to €1.25 billion, forgery of documents and illegal keeping of business books. Thus, Todorčić's ties with politicians were not investigated. And eventually, as of October 2020, the Court acquitted Todorčić of syphoning money from Agrokor, but he is still facing other charges.

The colossal crisis of Agrokor caused massive political turmoil and public outcry where citizens' perceptions of a country ran by powerful cronies intensified (Klepo 2017; Prelec 2018). The evidence of Agrokor's irresponsible corporate behaviour for three decades sparked a public debate that the Croatian democratic transition never really happened, and that the EU membership had little or no impact at all on corruption and special ties between politicians and businesspeople. It was perceived by the public that Todorčić 'bought' a sheltered space for himself and his company where he could build an empire, away from any institutional or regulatory control (Prelec 2018).

In December 2017, by the decision of the special administrator, the debt-equity swap of Agrokor's shares was done, and by it several creditor banks became the owners of the company. The Extraordinary Administration Procedure was hence finalised. Agrokor officially ceased to exist on 1st of April 2019, when Fortenova Group took over Agrokor's assets and commenced its business operations. However, the convolution of political, economic, and even geopolitical, entanglements and interests make the prediction of Agrokor's/Fortenova's future difficult to envisage.

Altogether, the rise and fall of Ivica Todorčić and his Agrokor company served as a fine example of an emblematic post-transitional, post-Yugoslav, Balkan tycoon-style business practice (Klepo, Bićanić and Ivanković 2017).

4.10 Discussion and Conclusion

The main commonalities between the corruption scandals of Agrokombinat and Agrokor are to be found in the ways of doing business, concretely in the fact that the ties between the business and the political elites were a pre-condition for the relative success of these companies. In the case of Ante Todorčić, his position at the top of the Croatian Communist Party provided him with an easy access to capital and the opportunity to experiment with capitalistic management methods. Most importantly, his political ties to the leading figures in the Party meant that he successfully avoided marginalisation, firing and criminal charges suggested in the Commission's report in 1969. In the case of Ivica Todorčić, the *bona fides* of his father and their connections to the Tuđman regime were even more instrumental in allowing him to start creating a monopoly without any substantial investment, during the times of transition to free market capitalism. Whereas his father only had connections to the top leadership in one of the republics, Ivica Todorčić had personal and familial ties to the top levels of power in the newly independent Croatian state, meaning that there were no instances above his network that could jeopardize his position. In that sense he managed to surpass his father's, rather modest, accumulation of capital and reach oligarchic levels.

Whereas the political ties of the Todorčić family created the preconditions for their relative success, the structural factors of the Croatian society in the studied period should be examined more closely, as they can cast light on the inertia of a system that repeatedly created similar outcomes. In terms of path dependence, these two case studies show:

- 1) A continual lack of separation between business and politics.

- 2) Presence of the 'strong capable man' cult.
- 3) Subordination of institutions to the political apparatus.
- 4) Nationalism as a key justifier for cronyism and worker exploitation.

Both Yugoslavia and Croatia were (and Croatia still is) societies of high context where informal networking is as important as formal institutions. For this reason, the two systems never fully achieved the theoretically optimal separation between politics and other spheres of public life – and for this study particularly important, business sphere. As it was once important to be well-connected within the Communist party of Croatia in order to achieve business objectives, it was later as important to be in good relations and well-networked with the HDZ. Without the blessings of the ruling political figures, it would have been impossible to achieve significant business success – an observation that applies for both Yugoslavia and independent Croatia.

The cult of the strong leader was a structural condition in Croatia, during the period of both studied scandals. In the case of Ante Todorić, the cult of President Tito was at its peak and the admiration of Todorić was primarily of a local character, based on his actual initial successful management of Agrokombinat. His issue was that he was relatively successful during a period of anti-managerism and the promotion of values of collectivism. This led to clashes between the publicly professed goals of collective management and the locally situated cult of admiration for the strong capable leader. On the other hand, his son Ivica was hailed as a Croatian hero, under the wing of the cult of President Tuđman. Both of them emerged as leaders of the independent Croatia – Tuđman as a political leader, and Todorić as a Croatian and regional business boss.

Both Ante and Ivica benefited from the fact that the institutions in Croatia were subordinate to the country's political leadership. For Ante Todorić this meant that despite a very detailed report outlining abuses in Agrokombinat and recommendations for filing criminal charges, his political ties kept him safe, until he became a threat to the political leadership. It is also

noteworthy that the workers of Agrokombinat similarly didn't have trust in the responsible institutions, which is seen in their massive letters campaign to the centres of political power, rather than to law enforcement. In the case of Ivica Todorčić, he operated entirely outside the boundaries of the law, with minimal institutional oversight. His downfall came only due to gross mismanagement which ended up endangering the whole of the Croatian economy. The lack of trust in the institutional capabilities is also visible in the governmental bypassing of regular procedures in attempting to sanitize the collapse of Agrokor by appointing special administrative regimes and passing tailored laws, like the *Lex Agrokor*.

The final permeating issue is the importance of nationalism in both studied cases. For Ante Todorčić, the outperforming of competitors from other republics, was one of the key arguments in his subtle threats to fellow Croatian Party comrades. The implication was that if their actions to sanction him were realised, the company would lose ground to outside competitors. This argument also trumped the fact that many of his closest associates had ultra-nationalistic family backgrounds. Ultimately, it was his ties to the nationalist wing of the Croatian Communist Party that led to his downfall. For his son, the fathers' nationalist credentials, connections and capital deposited abroad, helped in creating the brand of a nationally conscious pioneer of the independent Croatian state. The strategy of acquisition in other republics, especially Serbia, created a much broader sense of national pride, as it supported the myth of Croatian superiority towards its eastern neighbours.

In a broader sense, this examination of the two corruption scandals illuminates some specificities of the Croatian experience compared to other countries of real socialism, as well as certain particularities of the post-Yugoslav transitional period. Whereas all the countries of Eastern Europe experienced the inefficiencies of the planned economy, the Yugoslav liberalisations and 'allowed deviations' created more space for capable politically connected entrepreneurs to leverage the need for profitability and technological advancement into

increased managerial independence and personal capital accumulation. The system of WSM did provide some checks and balances, but as the case of Agrokombinat shows, action was only taken when the political realm required it, for its own revitalisation. Due to the growing nationalistic sentiment and the federalized political organisation, some semblance of market competition emerged in Yugoslavia among enterprises from different republics. This differs substantially in comparison to strict central planning of the so-called 'command economies' of the Eastern Bloc, with more homogenous ethnic makeups and more unitary political systems. The 1990s transition period, in the Croatian case, also differed significantly compared to the rest of Eastern Europe, primarily due to the adverse effects caused by the Yugoslav civil war. Destroyed infrastructure, increased military spending and the delayed reform process created fertile ground for politically connected managers to transition into national heroes, who could conquer market shares and extract profits from the neighbouring countries. This logic of growth through acquisition, using the network position as the main collateral, led both Ante and Ivica Todorčić towards a personally profitable, yet structurally unsustainable path of creating enterprises that were 'too big to fail'. In that sense, their business model did not deviate from the trends emanating from the centre of the world capitalist system. The main particularity of the Croatian experience is tied to the importance of nationalism in the economic sector, which was in some ways a precursor to the current day sovereigntists and anti-globalist tendencies. This emphasis on the symbolic (nationalism), in today's capitalist realism where form thumps substance, is ever-present in the latest iteration of Agrokor, the supermarket chain Konzum. Owned by global financial capital, it proudly extolls its long-lasting history and tradition, sponsors the national football team and provides customers with the warm red-and-white chequered aesthetic. In that sense, the history of this company and its current state mirror the history of the Croatian society, as well as the history of the global capitalist system.

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5 Conclusions

5.1 Main Findings

The results obtained from the two surveys conducted in Serbia and Croatia revealed that the businesspeople from these two countries share views on the phenomena of corruption, informality and their rapport to the state institutions. Namely, the respondents from both countries expressed low levels of trust in the Serbian and Croatian institutions. This shows that even after many years of economic and political reforms, and in case of Croatia the EU membership, these two countries have not succeeded in creating trustworthy institutions. This finding corresponds to the studies conducted previously (Begović and Mijatović 2001 & 2007; Budak and Rajh 2012).

The lack of trust in institutions stems from the viewpoint of the businesspeople that the official state institutions are weak – this paradoxically also affects the private sector’s somewhat positive view on regulations not being relevant for their business and not being an obstacle to doing business.

Furthermore, the positive developments in terms of rejection of illicit practices could be observed among the younger and more educated businesspeople. Specifically, this population, in both Serbia and Croatia, tends to use formal ways of doing business, and expresses low tolerance to corrupt behaviours. This indicates new trends in Serbian and Croatian business, especially in dynamic and propulsive sectors, such as ICT, finances etc.

The negative perception by respondents of large companies exists in both countries. These enterprises are seen by the respondents as inciters of grand corruption that affects high political echelons and thus negatively influences the market competition and is detrimental to consumers.

The connections between leading politicians and big business were also addressed in the third paper of this dissertation. The research on scandals in socialist and modern Croatia revealed that in high context societies, like Yugoslavia and later Croatia, informal networking has the same importance as the official (formal) organizations. Because of this, the theoretically ideal division between politics and other facets of public life, especially the business sphere, which is crucial to this study, was never entirely realized by the two systems. Instead, the research showed that the ongoing blurring of the lines separating business from politics existed and remained in the modern day as well, where the official institutions are subordinate to the political system. The cult of strong leaders existed in the communist time, as well as later on, and this had an adverse effect on both doing business and the general common good of the society.

At the same time, the empirical evidence gathered for the purpose of the third paper allowed to better understand how informal and political networks are developed by father and then inherited (or transferred) and used by his son. Thus, this PhD provides evidence that informal networks are hereditary and transferable within one family.

Finally, ideals like nationalism exist and persist in the economic sphere as well, and serve as an instrument of defence of favouritism and workers' abuse.

5.2 Contributions to the theory and policy

By applying different research methods in a study of corruption and informality, this dissertation captures the contemporary perceptions of corruption of relevant business actors. (1) Through surveys, this research isolates the most relevant manifestations of informal activities in business dealings and describes the context, which allows for informality to occur. Additionally, (2) surveys provide an evidence-based ground for creation of relevant anti-corruption policy measures that can be adopted by both private and public bodies. (3) By observing corruption and informality in business and by describing corruption scandals through a case study approach, this dissertation identifies and recognizes the historical trends and developmental trajectory of informality and corruption in business in the Western Balkans region. (4) the existing literature primarily focused on political corruption in Serbia and Croatia, and it had neglected the research on private corruption in the region, as well as the corruption and informality between businesses (B2B type of corruption). Finally, (5) this research tackled the historical aspects of corruption and informality in business setting in

Southeast Europe (in Yugoslavia) - a field that is largely neglected by the academia. This dissertation thus contributes to the existing research on corruption in private sector in Serbia and Croatia, as well as to the research of business history in the region of former Yugoslavia. The sum of all findings could be applied in the wider context of CEE and Southeast European countries and used for understanding business codes in the whole EU periphery region.

5.3 Limitations

This research has certain limitations that suggest that further research of corruption and informality in business would be necessary in order to fully grasp the causes for these phenomena. Below the main limitations are listed, as well as suggestions on how to correct these in the potential future research:

1. In the quantitative research with the focus on Serbia, one of the main limitations is the size of the sample. The relatively small size (78), allows only for investigation of correlations and associations, whereas causations could not be explored.
2. In the same research, the large companies were not represented – this suggests that the policy recommendations could not be tailored as specific as they ought to be. Hence, the large companies should be included in future studies of these topics.
3. The quantitative research approach utilized in the two survey-based studies was successful in detecting the scale of informality and corruption while being less successful to properly understand their underlying social and political reasons, as well as the dynamics of the formal/informal institutions in these societies. As a result, additional research on the same issues utilizing qualitative research methodologies is recommended.
4. Cognitive bias certainly played a role in the both quantitative studies. Despite the fact that the questionnaire was created to avoid being suggestive, it is possible that the respondents realized some of the questions were about dishonest behavior and self-censored as a result.

5.4 Future Research

The results obtained in the two surveys conducted in Serbia and Croatia are of significant scientific value. Therefore, this sample should be further quantitatively examined. A more in-depth statistical analysis could provide further answers vis-à-vis the specific determinants in

the two countries, which contribute to the formation of corrupt and informal practices in business. Also, the dynamics between the formal and informal institutional setting could be further explored with the statistical data processing of the existing survey results. These further attempts in exploring the topics of corruption and informality in business would serve to identify and explain the social and political causes that lead to their creation and persistence.

In order to further explore the topics of the thesis, and to deepen the understanding thereof, the qualitative research method should be further applied. The new information would be collected from the data acquired through the two surveys conducted with Serbian and Croatian businesspeople. More precisely, these data would be the following: the comments left by the respondents in the two surveys conducted for the purpose of two quantitative papers on corruption and informality among businesspeople in Serbia and Croatia, and the in-depth interviews with those respondents that accepted to be invited for an interview and thus left their contacts. The evidence (comments) from the previous research was collected through surveys - online questionnaires, that had open segments where respondents could leave their comments on the questions. Many of them elaborately commented, and these should thus be explored and analyzed as they present rich accounts and narratives on the socio-economic reality in these two countries. In addition to the comments, the interviews could be organized. These could be semi-structured and would follow the main findings from the two previous research papers, that were based on a quantitative method. These previous findings would serve as a basis for interview questions, but interviews would also encompass relevant issues raised by respondents that would be considered relevant to the study. This would greatly contribute to the findings of this PhD thesis.

Furthermore, the future research should concentrate on exploring corruption and informality perception as seen by particular populations in these two countries since it was demonstrated that identity and belonging to particular social groups greatly influence the individual stance on corruption and informal practices. The grouping could be based on the following categories: gender, age, educational level, size of the firm, role in the firm, firm sector, and business performance/success of the firms.

Finally, another avenue for research that would be of importance is the comparison of finding in the two countries – Serbia and Croatia. This could also be done with other countries of similar economic size. The objective would be the identification of social processes and

particular determinants that cause and affect the creation and the very extent of corruption and informality in private sector.

5.5 Concluding Remarks

This PhD project presents a unique perspective on the phenomena of business corruption and informality in Serbia and Croatia because it uses the original findings, and never-seen-before archival materials. The two papers, based on the quantitative research method, were written using the results coming from the primary sources, and thus contribute to the originality of this thesis. Secondly, the case studies on the two Croatian companies were also executed with the use of the original and unpublished archival data. Hence, the PhD was built on the materials that are unique and novel, which contributes to the uniqueness and novelty of the thesis. As such, this thesis is a meaningful addition to the previously accumulated knowledge on corruption and informality in the business environment.

6 Literature

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