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Alena Ledeneva & Adnan Efendic

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# There Is No Free Lunch: The Cost of Informal Networking for Entrepreneurs in Southeast Europe

ALENA LEDENEVA & ADNAN EFENDIC

## *Abstract*

This article investigates informal networks of entrepreneurs in Southeast Europe. Informal networks are defined as based on trust relationships and used for seeking competitive advantage in business. We assess the costs of informal networks, including their non-monetary and monetary components, on the basis of in-depth interviews with entrepreneurs in small and medium-sized business in the region. The evidence points to an ambivalence towards informal networks, perceived to be both affective and instrumental, and the prevalence of double standards. Informal networks are welcome when they help but resented when they help others, thus reproducing the pressure of maintaining informal networks.

ONE OF OUR RESPONDENTS, AN ENTREPRENEUR WHO TRAINED in the United States and returned to Croatia to set up a business, summed up his perception of the prominence, size and costs of informal networks as follows:

I was educated in the US, so when I came back here and tried to do everything by the book, I did not fully understand informal networking and did not accept this environment, let's call it the 'Balkan mentality'. Several years ago, I came to realise how our system functioned and ... [I] started socialising and networking more to find my own people ... I could not progress without them. There are between 20 and 25 people in my network, and I stay in close, relatively intensive contact with them. ... I see them twice a month and I have written down some important details about these people—what they like, prefer to do, and so on. ... In the beginning, it was a burden to me. But since I noticed the benefits it brought me, it stopped [being a burden]. I became convinced that the more you give, the more you get back. However, it is not just cost–benefit-based exchange; the relationship works based on principle of solidarity as well, because even if

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some person is not giving enough in a certain moment, this gets balanced over time. ... Still, I can evaluate exactly [the related costs], because I keep track of all these expenses.<sup>1</sup>

Had this respondent attended a business school in the 2000s, after the arrival of sociologists to business schools, the value of networks would have been taught explicitly, with reference to the strength of weak ties, six degrees of separation and structural holes (Granovetter 1973; Burt 2004; Watts 2004). From the 2010s onwards, books on the role of networks in business success appeared on bestseller lists and in airport bookshops (Grant 2013). However, numerical data on the value of networks and their size, the incurred costs of informal networking and their variation depending on the sector, company size or a country's stage of institutional development remain scarce (Grabher & Stark 1997; Vedres & Stark 2008).

Economic sociologists and organisational scholars have considered networks predominantly as market 'plumbing', whereby networks are the conduits through which 'market stuff' flows; 'market stuff' encompasses information about exchange opportunities as well as the actual goods, services and payments that are transferred between buyers and sellers (Podolny 2001, p. 33). In contrast, we conceptualise informal networks as the 'plumbing' that serves 'non-market stuff' and focuses on how non-market relationships serve business purposes. The difference is that the 'stuff' channelled by informal networks involve favours of access, mutual help and sharing opportunities that create competitive advantages for those belonging to a network; however, this 'stuff' is inalienable from the relationship, which is sustained even if it is considered a burden (Ledeneva 1998). Business culture in the Balkans is characterised by 'instrumental friendships' (Chavdarova 2007). Due to high levels of social distrust, businesspeople prefer to deal with those they know, and consequently trust, rather than with strangers (Grødeland 2012). The ambivalence of informal networks, or the dual utility of such instrumental friendships, allows them to serve as channels for emotions and reciprocal obligations as well as for favours and opportunities that add value for business.

While the use of informal networking for entrepreneurship is well-recognised in the literature (Granovetter 1973; Greve & Salaff 2003; Silk 2003; Brueckner 2006; Marmaros & Sacerdote 2006; Pesämaa & Franklin Hair 2007; Watson 2011; Zang 2011; Semrau & Werner 2014; Salinas *et al.* 2018; Ge *et al.* 2019), its related costs remain relatively unexplored. Efendic and Ledeneva (2020, 2021) investigate the estimated costs of informal networking by the general public in Southeast Europe, while this research provides a qualitative analysis of the costs of informal networking and its use by entrepreneurs in small- and medium-sized business (SME). Our data suggest that informal networking—the process of creating and maintaining informal ties—is often a way to circumvent formal institutional constraints, to reduce the overwhelming costs associated with formal procedures and administrative barriers, or to get around time-consuming formalities, thus pointing to the gap between formal institutional frameworks and

<sup>1</sup>Interview CRO\_4, Zagreb, February 2017. All reported data have been collected as part of the H2020 INFORM project funded by the European Union, Grant Agreement 693537. Abbreviations (for example, CRO\_4) indicate the country where the interview was conducted (Croatia) and the number of the interview (4), while the language in which the interview has been conducted is the language of that particular country. More information about the interviews is available in Appendix 2.

informal practices on the ground.<sup>2</sup> While informal networking might be instrumental for bridging this gap, it is not ‘free’ for entrepreneurs and creates a burden, a kind of informal taxation, that should not be neglected by researchers. In this study, we gave entrepreneurs a voice, scrutinised their own estimates and interpretations, and empirically analysed variations in the costs of informal networking. We tested hypotheses about the ambivalent role that informal networks play in institutional frameworks when formal institutions underperform.

We structure the article along the following five research questions. First, how does institutional change in the Southeast European transition affect the perception of informal networks and their significance for business? Second, do informal networks of entrepreneurs differ from their social networks? Third, how do entrepreneurs explain the estimated costs of informal networking? Fourth, do the costs of informal networking support or subvert business? Fifth, are the costs of informal networking perceived as expenses to cut or an investment to increase?

Although our qualitative data did not offer conclusive answers to these questions, our analysis provides insights into the role of informal networking in Southeast Europe and suggests theoretical framing for the study of informal networks more generally. Our findings about ambivalence towards informal networks help explain the slow transformation of social norms in the region.

*The institutional environment for business in Southeast Europe: from quantitative data to qualitative methodologies*

Southeast Europe—including Slovenia, Croatia, Bosnia & Hercegovina, Serbia, Montenegro, North Macedonia, Kosovo and Albania—is known for its complex transition to a market economy, occurring against a historical background of ethnically based conflicts in most of these countries. On the one hand, these setbacks severely damaged the development of the institutional environment. On the other hand, the region has attracted foreign investment and underwent externally driven institutional changes. Institutional inefficiency is a well-acknowledged challenge in most emerging economies today (Ahlstrom & Bruton 2006). In our sample, Slovenia and Croatia are the only two countries that have succeeded in becoming full members of the EU, which remains a strategic goal for the rest of the region. Two and a half decades after the Yugoslav dissolution and related wars formal institutions in the other Southeast European countries are usually described as ‘being at an early stage’ and having ‘some level of preparation’; very rarely as ‘moderately prepared’ for EU integration (European Commission 2015a, 2015b, 2015c, 2015d, 2015e, 2015f). Despite improving their economic performance, most non-EU countries in our sample are far from having a developed institutional framework conducive to a friendlier business environment. The key international organisations involved in monitoring the formal institutional environments (Miller *et al.* 2019; World Bank 2019; see Appendix 1) conclude that, in most cases, the region suffers from institutional complexity, overlapping jurisdictions, government ineffectiveness and

<sup>2</sup>See also Gordy and Efendic (2019).

time-consuming processes. The EU countries, Slovenia and Croatia, perform better in comparison to the non-EU countries, not only in their institutional performance as measured by different institutional indices, but also in their business and economic development.

Inadequate law enforcement and the ineffectiveness of formal institutions are amongst the main reasons for the predominant role of informality in societies, defined as particularistic, or based more on relationships than on universalist rules (De Soto 1989; Mungiu-Pippidi 2015). In such societies, there are grounds for informal institutions to be an integral part of everyday life, and to play a substituting rather than complementary role (Helmke & Levitsky 2004; Guseva 2007; Estrin & Prevezer 2011), even more so in emerging economies (Ahlstrom & Bruton 2006; Ge *et al.* 2019). To address the challenges arising from emerging markets and imperfect institutional environments, entrepreneurs must develop compensating mechanisms to operate their business and pursue development (Salinas *et al.* 2018; Ge *et al.* 2019). Indeed, Efendic *et al.* (2011) find that lengthy and costly formal procedures lower confidence in formal institutions and encourage substitutive reliance on informal practices in Southeast Europe (namely, Bosnia & Herzegovina (BiH)). However, this might change as countries in transition progress institutionally towards EU integration (Williams & Vorley 2015).

Effective formal institutions reduce risks and transaction costs and constitute a declared goal for the reforms, but the actual outcome of the reform of formal institutions is affected by households and entrepreneurs: people rationalise their transaction costs and reduce their burden where possible. After all, relying on informal institutions (family, friends, community) and resorting to informal networking to get things done is a rational strategy for those who have no alternatives on offer. Yet such informal constraints and cultural norms, based on particularistic rather than universalistic assumptions, remain underrepresented in the analyses of institutional frameworks. To reassess the balance, we add informal constraints to the analysis by undertaking a qualitative in-depth study that provides a deeper understanding of informal networking by entrepreneurs in Southeast Europe.<sup>3</sup>

Even though cultural norms changed following the end of communism to accommodate private property, commercialisation, unprecedented levels of power distance and wealth differentiation, and deepening ethnic divisions, informal networking has remained essential to alleviate the top-down constraints in the process of subsequent Europeanisation.<sup>4</sup> The theory of path dependency offers some explanatory power for the renewed importance of informality in Southeast Europe in the postsocialist period. It contends that institutions are not static but transform and evolve over time. As they evolve, the legacy of both formal and informal institutions leaves an imprint on people's

<sup>3</sup>See Zheng *et al.* (2019) for the case of China.

<sup>4</sup>The EU supported the INFORM project, which brought together teams from eight Southeast European countries to conduct a multidisciplinary social science enquiry, 'Closing the Gap Between Formal and Informal Institutions'. This three-year research project, launched in March 2016, was carried out in the framework of the Horizon 2020 programme. Forty researchers from the Southeast Europe region took part in tracing the consequences of Europeanisation in their region. See, <https://www.ucl.ac.uk/impact/case-studies/2022/apr/inform-closing-gap-between-formal-and-informal-institutions-balkans>, accessed 21 September 2022.

behaviour, a path that ‘structures a nation’s response to new challenges’ (Hall & Taylor 1996, p. 9). As a result, those behaviours and practices that proved successful in the past continue to be maintained and reinforced in facing new challenges. However, in order to question the confirmation bias associated with path dependency, it is necessary to explore the explanatory power favouring the shift in cultural norms and the generational change since the breakup of Yugoslavia. Some empirical research finds that networking correlates negatively with cultural norms and trust. Where people interact with social networks outside their clan or community, it may result in the increase of networking but not necessarily of trust or conformity with cultural norms (Radnitz *et al.* 2009). For the purposes of our study, we intentionally limited our focus to informal networks, defined as trusted people rather than social networks overall.

In our 2017 quantitative survey implemented in Southeast Europe, we operationalised informal networks for the respondents (general public) in terms of their reliance on ‘your own people’ (for example, to take care of children and the elderly, to provide household help, to call upon for help in time of need) and their trust in them in a particular context. The emphasis was placed on behaviour rather than on the make-up of the network, but it became apparent that such reliance on help from ‘your own people’ in a time of need essentially constituted an informal network. The survey data analysis showed that the informal networking costs for the general public were dependent upon the network size and type and the social status of its members (Efendic & Ledeneva 2020). As entrepreneurs were involved in that survey, we included the relevant quantitative findings about the business sector in our qualitative analysis.

In this study, we limited our hypotheses to entrepreneurs who are small and medium-size business owners and managers in Southeast Europe. Our point of entry—the entrepreneurs—enabled us to explore the role of informal networks in more detail, because entrepreneurs are outside formal hierarchical structures, such as state or public services, but depend on them, so they had expertise and were also willing to speak about their use of contacts. Our data allowed us to test the possibility of estimating the costs of informal networking. Our sample for semi-structured interviews, implemented in seven countries, included two EU countries and five countries at various stages of the process of integration (candidate and potential candidate countries). Comparing EU with non-EU members allowed us to explore hypotheses based on a comparison of more and less developed institutional frameworks.

A multi-method approach to data collection was used to investigate the complexity of informal networking in southeast Europe. We collected qualitative data through semi-structured interviews amongst entrepreneurs who ran or managed micro, small and medium businesses (see Appendix 2). Importantly, our sample was not designed to include the informal sector or informal employment. We aimed at exploring the personal networks of entrepreneurs who operated in the formal economy but relied on informal networking. Renz and Sullivan (2013, p. 1898) explain that ‘insight gained from interviews continue to be invaluable, especially when it comes to examining complex situations in a political system where informal networks and practices are at least as important as formal institutions’, which is the case for the post-Soviet space (Whitmore 2010) and also for Southeast Europe (Gordy & Efendic 2019). We accepted Renz and Sullivan’s (2013) conclusion that for in-depth understanding of informal networking and informal practices, interviews remain the most appropriate methodology of data collection.

The interviews covered five major topics: general information about sector and business; the size and structure (density, centrality) of informal networks; the costs of informal networks; and the general functioning of these networks. This data gathering was conducted by local INFORM researchers over the period September 2016–March 2017.<sup>5</sup> The interviews included both owners and managers of the companies, which were registered in the formal economy. The interviews were recorded with consent, anonymised, converted into transcripts and coded for the purposes of comparative analysis. Overall, we did not have any major challenges in carrying out these interviews. The majority of respondents were willing to talk about these issues, although some were rather terse in their responses, while others started talking only after the recorder was turned off. The questions were tested in five pilot interviews with entrepreneurs in BiH in September 2016 and modified accordingly. The effective sample ultimately included 70 interviews, of which five interviews were conducted in Albania, 16 in Bosnia & Herzegovina, five in Croatia, five in Kosovo, ten in North Macedonia, nine in Serbia and 20 in Slovenia.

Apart from qualitative data-gathering, we also collected relevant quantitative data through these interviews (such as network size, company size, sector of the economy and managers' years of experience), which we used to estimate an empirical econometric model with relationships between the informal network size and the cost of informal networking. In this way, we supplemented our in-depth analysis of informal networks with quantitative investigation that provided insights into systematic and quantified patterns in respect of how informal network size affects the costs of informal networking in Southeast Europe, already identified to be substantial (Efendic & Ledeneva 2020). However, the sample is not representative of the SME sector, which puts certain limits on the interpretation of the results, and relativises the quantitative estimates reported to frame our in-depth finding. However, our article combines the advantages of the qualitative and quantitative methodologies applied to high-quality data from the region, where informal networks and practices prevail. Illuminating insights into the research questions in this article provide valuable hypotheses for assessing the implications of informal networking in future research.

#### *Entrepreneurs' informal networks: definitions and hypotheses*

We use the term 'informal networks' rather than 'social networks' in order to emphasise the tension of the instrumental use of informal relationships in a formal setting: the use of personal relationships for getting things done in spheres beyond the social. A great deal of the literature on social networks explores the functionality of networks and associates them with social capital. We argue that it is essential to differentiate informal networks that are both affective and instrumental from social networks, which could be neither affective nor instrumental, that is, not be used for getting things done. Informal networks

<sup>5</sup>This research relies on the data collected at one point in time (end of 2016 and the beginning of 2017); hence, we did not observe longitudinal or panel data. This approach makes limitation generally acknowledged for most of the cross-sectional research, that is, we are not able to follow or uncover any dynamics in the data.

are primarily biographical by-products and rely on strong or affective ties. The paradox of the dual nature of informal networks, being genuinely affective but also instrumental, produces a set of functionalities that, in our views, might have been overlooked in approaches based on the distinctions between strong and weak ties, or bonding and bridging social capital.

The concept of social networks was developed within the Anglo-Saxon world; thus, its universal applicability and association with social capital can be challenged in other parts of the world. In Southeast Europe, as in East Asia, informal ties often precede their instrumentalisation: a person is born into networks, develops emotional ties and becomes locked into a culture of reciprocity and obligation, regarded as immutable and irreversible (Horak 2018). While some of these informal networks may be decentralised, others tend to be oriented towards a powerful patron. Both kinds of informal networks share certain behavioural ethics, exercise specific forms of peer pressure, and determine the social status of their members in a given cultural setting.

We have operationalised informal networks in our study as ‘circles of trusted people’, while arguing that ‘trusted people’ in a business context is a substantively ambivalent concept (Chavdarova 2007, 2013; Vedres & Stark 2008; Puffer *et al.* 2013; Horak *et al.* 2020). As a non-market strategy, reliance on informal networks converts seamlessly into a business strategy and opportunity cost, thus contributing to the transaction costs of running a business. It is these grey areas of non-market strategies with market potential that are reflected upon by the respondents themselves and that constitute our interest here.

In the language of participants, the use of non-market strategies is often referred to as ‘help’ or ‘trust’. In the language of observers, the situation appears to be much more complex. According to existing perspectives on social networks, two explicit choices must be made in studying them. First, networks can be treated either as personal (represented by people) or impersonal (represented by organisations). Second, networks can be considered internally (exploring their inner mechanisms) or externally (inferring their implications for a broader socio-economic context) (Ledeneva 2008). The intersection of these dimensions generates a matrix of four basic perspectives on social networks (see Table 1).

Our understanding of informal networks combines boxes (1) and (2). It is also possible to distinguish personal networks of entrepreneurs on the basis of what they themselves consider relevant. In our pilot study, entrepreneurs were asked to choose one answer for the question, ‘What best defines a network for you?’. Options included: ties between them (technical principle); friends on social media (connectivity principle); personal contacts (biographical

TABLE 1  
EXISTING PERSPECTIVES ON SOCIAL NETWORKS

| Focus on:             | Personal                                                                       | Impersonal                                                                     |
|-----------------------|--------------------------------------------------------------------------------|--------------------------------------------------------------------------------|
| Internal constitution | (1) Sociability                                                                | (3) Enabling structure, network-based <i>modus operandi</i> , connectivity     |
| External influence    | (2) Access to resources, information, reducing uncertainty and problem-solving | (4) Social capital, correlation with other forms of capital and convertibility |

Source: Ledeneva (2008, p. 61).



TABLE 2  
POSSIBLE USES OF INFORMAL NETWORKING IN BUSINESS

|                                                              | Legal                                                                                                                                                                                                                                                                                                         | Illegal                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ethical, legitimate, socially acceptable in certain contexts | A Informal networking that facilitates the workings of formal institutions and overall is socially acceptable                                                                                                                                                                                                 | B Informal networking that serves the purpose of superseding legal norms, but at the same time is socially acceptable as a form of competitive advantage or compensation for the defects of formal institutions (tax evasion, gifts, hospitality and bribes, violation of corporate code in order to comply with commitment to families, business partners and communities). |
| Unethical, illegitimate socially questionable                | C Informal networking that serves legal (at least not criminalised) but socially unacceptable or morally questionable purposes (lobbying, party membership in exchange for business opportunities, winning public auctions according to the rules but without competition or gaming the system in other ways) | D Informal networking that involves criminal connections, illicit businesses and prohibited goods, and is not socially acceptable                                                                                                                                                                                                                                            |

Source: Adapted from Ledeneva *et al.* (2018); *Global Informality Project*, available at: [www.in-formality.com](http://www.in-formality.com), accessed 17 May 2021.

principle); people who could be asked for help (trust principle); and family and family friends (biological principle). From these, the majority of respondents chose the trust principle, where reliance for help is explicit, closely followed by the biographical principle, where calling on personal contacts for help is implicit, that is, a contact may remain dormant and only approached in particular circumstances, when the need arises. In our interviews, the majority opted for the trust principle, such as in the following citation: ‘interactions between us, within these (informal) networks are based on loyalty and trust. ... Everything is based on mutual trust’.<sup>6</sup> The idea of dormant contacts corresponds with Granovetter’s finding of the strength of weak ties, which stipulates that ‘weak’ (less frequently used) ties are ‘strong’ because they connect people with divergent backgrounds and experiences, thus allowing them to gain resources unavailable within their networks of closer and more regular ties (Granovetter 1973). Also, weak ties are less costly and thus bring a bigger return on investment.

Types of informal networking can be mapped in a simple matrix, as shown in Table 2. Boxes A and D will not be discussed in this article, as they are either non-problematic or outright criminal. Following the leads from our respondents, we concentrated on the informal networks in boxes B and C. Box B includes socially acceptable business strategies that contradict legal norms that may have been new, undergoing rapid change, overlapping or underenforced. Conversely, box C comprises informal networking strategies used to facilitate legal yet not socially acceptable agendas.

Highlighting the role of informal networking as a business strategy is important for several reasons. First, whereas formal rules are conceived to be universal, legal and

<sup>6</sup>Interview SLO\_20, Hoce, November 2016.

ethical, informal networks serve to solve problems in particular, context-bound circumstances and accommodate the complexity of social life. Second, just as formal organisations function to enforce formal rules and constraints, people resort to informal networks in order to enforce social norms and apply informal constraints, such as peer pressure. Third, essential for the innovation, informal networks of entrepreneurs are fluid and dynamic. Networks themselves can be dormant and surface when a particular problem arises, or change quickly. Fourth, like formal hierarchies, informal networks reduce uncertainty and grant access to resources, and are thus valuable to their members. People invest time and money in establishing and maintaining networks.

Informal networks are used differently in different cultures, institutional frameworks or sectors of the economy. In transitional economies, the business strategies of entrepreneurs tend to be channelled, coordinated and controlled by informal networks (Ledeneva 2006; Field *et al.* 2015). Entrepreneurs expect to gain benefits from belonging to a network and the relationships they build within it (Klyver *et al.* 2007; Semrau & Werner 2014).

*Entrepreneurs' time and money: what makes informal networks expensive?*

The literature suggests that forming and maintaining informal networks incurs some costs (Silk 2003; Brueckner 2006; Marmaros & Sacerdote 2006; Pesämaa & Franklin Hair 2007; Semrau & Werner 2014; Ge *et al.* 2019). Informal networking can either change overall transaction costs or keep them at the same level by complementing or substituting formal costs with informal costs. Nevertheless, informal networking costs include not only monetary costs but also opportunity costs, namely, less time available for other tasks relevant for business development (Semrau & Werner 2014). Such non-monetary and other non-articulated costs are often left out of calculations by observers, although for participants, knowingly or unknowingly, such costs constitute a part of entrepreneurial strategy.

Our quantitative estimates of monthly costs of informal networking by entrepreneurs in the observed Southeast Europe countries ranged between €10 and €1,000, averaging €220. To compare self-reported numbers between countries with different levels of economic development, we normalised them based on the respective gross domestic product *per capita* (GDPpc) using purchasing power parity (PPP) indices, which consider price differences. Slovenia, the richest and the most institutionally developed country in the sample, reported the lowest costs of informal networking on a monthly basis (€50), while Kosovo and Albania, the least developed countries, reported spending the largest amounts (€300–500), followed by BiH (€240). One respondent replied: 'It is 5,000–6,000 Kuna, let's say €700–800 per month. Actually, I am sure that it is €800 per month'.<sup>7</sup> While some respondents gave precise estimates ('I spend around €400 per month',<sup>8</sup> 'Around €1,000 per month',<sup>9</sup>), others provided a range of costs, such as €400–700 per month.<sup>10</sup>

<sup>7</sup>Interview CRO\_4, Zagreb, February 2017.

<sup>8</sup>Interview ALB\_2, Tirana, March 2017.

<sup>9</sup>Interview KOS\_2, Mitrovica, February 2017.

<sup>10</sup>Interview BiH\_1, Zavidovici, September 2016.

Timewise, entrepreneurs reported spending 12 hours per week on informal networking on average, more than a working week per month. One of our respondents, an entrepreneur, stated, ‘time is a very valuable resource’, noting that it was a challenge to find time for informal networking;<sup>11</sup> thus, there was an economic rationale for including invested time in our analysis. Doing business without informal networking was regarded as possible but onerous: ‘it is not that one cannot develop the business without this support. It can be done, of course, it is just more time consuming’.<sup>12</sup> Time invested in informal networking seemed to offset time spent dealing with inefficient formal institutions and can be interpreted as a strategy to make net gains through arbitrage between the ‘invested’ time and ‘saved’ time and monetary costs.

As with the monetary costs, our respondent entrepreneurs provided precise estimates of the time they spent on informal networking: ‘At least 30 hours a week’;<sup>13</sup> ‘I spend 20 hours per week this way’;<sup>14</sup> ‘I spent five hours per week’;<sup>15</sup> some simply assessed time spent as ‘a lot’.<sup>16</sup> According to one research finding, the average budding entrepreneur in Germany only spends one hour a week networking (Semrau & Werner 2014), which suggests a substantive difference in institutional context between Germany and Southeast Europe. According to our data, Slovenian entrepreneurs spend one working day (eight hours) on networking, while the time invested in BiH and Serbia—16 hours on average—is twice as much. It is 14 hours in Albania and ten hours in North Macedonia. Interestingly, if we look at the data for particular countries, the time invested into informal networking seems to be linked to formal institutional efficiency relevant to business (see Appendix 1). Arguably, there is a pattern: a more efficient and business-friendly institutional environment allows entrepreneurs to spend less time on informal networking.

Approximating the value of entrepreneurs’ time by using average net earnings of managers (per hour) in these countries, additionally adjusted according to the PPP index, we concluded that the opportunity cost of time is much greater than costs paid directly in money (the mean value of the cost of time is over €600). Although we do not claim to provide a precise estimate, these numbers are indicative of a substantial level of aggregated cost.

Our evidence suggests that the so-called ‘instrumental friendships’ are part of the business strategies of entrepreneurs. This ambivalence surfaced in the interviews; for example, ‘When you meet people from your informal network, you never know if you are having fun or doing business’;<sup>17</sup> ‘I can’t put a clear line between time spent just for friendship and time spent doing business with my acquaintances’.<sup>18</sup> Such ambivalence towards informal networks, embracing both affective ties and their instrumental use, presents a quantitative challenge: how to assess the burden of the implicit contract and

<sup>11</sup>Interview MAC\_7, Skopje, December 2016.

<sup>12</sup>Interview ALB\_1, Tirana, March 2017.

<sup>13</sup>Interview BiH\_7, Sarajevo, December 2016.

<sup>14</sup>Interview ALB\_3, Tirana, March 2017.

<sup>15</sup>Interview ALB\_5, Tirana, March 2017.

<sup>16</sup>Interview BiH\_7, Sarajevo, December 2016.

<sup>17</sup>Interview CRO\_4, Zagreb, February 2017.

<sup>18</sup>Interview ALB\_2, Tirana, March 2017.

the returns on the investment in social capital. Our qualitative analysis highlights some of the implications of these issues on the cost of informal networks.

In what follows, we establish what makes informal networks costly in quantitative terms. Intuitively, the size of network should correlate with its costs, so we explore this correlation by controlling relevant factors in an illustrative empirical econometric model. The network size in our interviewing sample varies between two and 700 members, with a mean value of 44 participants. The average size of networks amongst emerging entrepreneurs in Germany is much lower, reported to be 14 members (Semrau & Werner 2014). According to our data, entrepreneurs from Kosovo and BiH had the biggest networks, ranging from 80 to 170 people and averaging 110 (henceforth, average in brackets), followed by Serbia (35), Albania (31), North Macedonia (19), Croatia (14) and Slovenia (11). Our research question is similarly formulated to that in the Semrau and Werner (2014) article and has an open scale. Thus, we believe that we can compare these responses.

In our research sample, the size of a network was negatively correlated to the formal institutional environment for conducting business (see Appendix 1). Entrepreneurs in the less developed economies (in particular in BiH) often said that they tried to expand their networks because they saw them as an important business strategy in their particular institutional environment. One example, from BiH, here illustrates the importance of large networks: ‘The more people you know, the more progress you can make in your business. And, I prefer to know more and more people on an informal basis. ... This is because everything is so complicated here’.<sup>19</sup>

As an additional step, we estimated a simple econometric model that included potential determinants of the total costs of informal networking in Southeast Europe. The total costs of informal networking (*Intotcp*)<sup>20</sup> included monetary costs and costs of time for networking (both PPP adjusted). We controlled for the effect of the size of informal networks (*size*) and other controls: the sector of the economy (production or service) (*indus*); the size of the company by number of employees (*employee*); and years of entrepreneur experience (*exper*) (see Table 3).<sup>21</sup>

The estimates confirmed that network size increases the costs of informal networking: for each additional member of the network, the total costs grew by 0.4%, on average. Following Semrau and Werner (2014), who identify a diminishing marginal return in terms of access to financial capital, knowledge and additional contacts from larger networks, we checked for a similar possibility for the costs but did not find that the costs decreased with larger networks (if the squared effect of network size is added to the model, it is insignificant). In small and medium businesses in Southeast Europe, the size of a company was positively associated with the informal costs spent on networking. The bigger the business, the more the entrepreneur spent on informal networking. Higher monetary costs were also consistently reported by entrepreneurs in the service sector, in contrast to those in production. Although these differences were not our primary focus, we believe that economic

<sup>19</sup>Interview BiH\_4, Sarajevo, September 2016.

<sup>20</sup>Italics mark the variables used in our simple empirical model, which is explained further in Table 3.

<sup>21</sup>We used OLS cluster robust estimates; as clusters in our estimates we define countries. The results are fully consistent if clustered estimates are not used, with some gains in the precision of the estimated coefficients.

activities in the service sector rely more extensively on interaction with people, which can lead to larger networks being established over time. These two effects are statistically significant at the 10% level. Years of experience were not associated with a statistically significant effect. The estimated model has a proper diagnostic and a decent explanatory power (32%), although the sample size limits a deeper investigation.

To sum up, we found quantitative evidence that the size of the network affects informal networking costs (larger networks are associated with higher costs), together with the size of the enterprise (larger companies were associated with higher costs) and the type of industry in which the networks are rooted (the service sector reported larger network costs in comparison to the production sector). We identified these factors as relevant in explaining the variations in the costs of informal networking by entrepreneurs in Southeast Europe.

TABLE 3  
COSTS OF INFORMAL NETWORKING FOR ENTREPRENEURS: OLS CLUSTER ROBUST ESTIMATE

| Variable                                   | Short description of variables                                | Number of observations | Mean value | Empirical model<br>Dependent variable<br>= <i>Intotcp</i> |         |
|--------------------------------------------|---------------------------------------------------------------|------------------------|------------|-----------------------------------------------------------|---------|
|                                            |                                                               |                        |            | Coefficient                                               | P-value |
| <i>Costmonp</i>                            | Cost of money estimated on monthly basis, in euros, PPP       | 56                     | 155.1      | –                                                         | –       |
| <i>Costtimp</i>                            | Cost of time estimated on monthly basis, in euros, PPP        | 64                     | 390.7      | –                                                         | –       |
| <i>Intotcp</i>                             | Total costs of informal networking in euros, PPP, logarithmic | 55                     | 6.2        | –                                                         | –       |
| <i>Size</i>                                | Network size (number of people)                               | 66                     | 44.2       | 0.004                                                     | 0.010   |
| <i>Industry</i>                            | Production (0) or service sector (1)                          | 70                     | 0.7        | 0.316                                                     | 0.094   |
| <i>Employee</i>                            | Number of employees in the company                            | 70                     | 15.0       | 0.009                                                     | 0.074   |
| <i>Experience</i>                          | Years in business of interviewed entrepreneurs                | 70                     | 15.4       | 0.017                                                     | 0.124   |
| <i>Const</i>                               | Constant term                                                 | –                      | –          | 5.370                                                     | 0.000   |
| Number of observations                     | 54                                                            |                        |            |                                                           |         |
| R-squared                                  | 0.32                                                          |                        |            |                                                           |         |
| Ramsey RESET test, Prob > F                | 0.80                                                          |                        |            |                                                           |         |
| Variance inflation factor (VIF), Mean VIF  | 1.21                                                          |                        |            |                                                           |         |
| Cluster robust estimate, cluster = country | Yes                                                           |                        |            |                                                           |         |

Source: Authors' calculation using Stata 14.

*Do informal networks support or subvert business? Double standards and the dual impact of informal networks*

Through our interviews we established that informal networks of entrepreneurs constitute important enabling channels that affect the local market and create added value. In the words of one respondent:

Through these [informal] networks, we have practically created a new value chain. If any company from the network is not able to meet demand, it automatically enters into cooperation with similar companies in order to deliver demanded goods or services. At the same time, technology is improving, the quality of products/services is improving, and we have promotion and branding. And there is no formal way of doing all of this, because every formal way imposes significant expenses and burdensome procedures. ... Despite the network being informal, its rules are respected, I could say, even more than some [formal] laws.<sup>22</sup>

From this perspective, the intensity of informal networks' use correlated with business size, the sector of the economy and company size. Instead of assuming that the cost of informal networks was a burden and that entrepreneurs would willingly replace it with formal channels if available, we posited an open-ended question as to whether 'investment' into informal networks brought expected benefits.

The entrepreneurs tended to perceive informal networking as 'how things were done' in their environment: 'an informal network of contacts simply has to exist',<sup>23</sup> 'that is how the state functions',<sup>24</sup> 'there's no other way of functioning in our world'.<sup>25</sup> One respondent summarised this nicely: 'In our society, there is still a system where you cannot make progress without some sort of informal connections'.<sup>26</sup> From this perspective, these entrepreneurs could be seen as conformists who follow the customary ways of doing business in the region. However, in the same interviews they communicated their 'non-conformism', emphasising that networking was business-driven, a strategy to self-protect against the pressures of an unfriendly business environment. Very often informal networks were reported to be used for opening doors, avenues and channels by 'getting information and speeding up different formal procedures'.<sup>27</sup> Unless a person is proactive and has a strategy to cope with the formal institutional environment, even if such a strategy is burdensome, nothing will change: 'If you do not have your own informal connections ... the doors will be closed'.<sup>28</sup>

Without reflecting upon this contradiction, the interviewees reported both an aversion towards informality and perceived it as a necessity. There was a pattern of ambivalence about informal networks, which were welcomed if they were helpful but resented if they helped competitors; appreciated if they reduced costs but disliked if they created a

<sup>22</sup>Interview BiH\_7, Sarajevo, December 2016.

<sup>23</sup>Interview MAC\_3, Skopje, November 2016.

<sup>24</sup>Interview SRB\_3, Zaječar, January 2017.

<sup>25</sup>Interview SLO\_11, Slovenj Gradec, November 2016.

<sup>26</sup>Interview BiH\_1, Zavidovici, September 2016.

<sup>27</sup>Interview MAC\_3, Skopje, November 2016.

<sup>28</sup>Interview SRB\_3, Zaječar, January 2017.

burden. Still, respondents were explicit about the need for them: ‘There are segments in our society where you just have to have informal connections ... you have to have the ear that listens to you in order to get what you need’.<sup>29</sup> Some argued there was too much informality: ‘I wish we had a state without it’;<sup>30</sup> ‘If there was a more functioning rule of law in the country, one would not need these kinds of contacts’.<sup>31</sup>

Whether conformist or non-conformist, reactive or proactive, complacent or critical, most respondents had, to some extent, a double standard towards informality. Informality was disapproved of in the workings of formal state institutions but regarded as acceptable when it was the ‘only possible way of doing business’.<sup>32</sup> As formal institutions improve, the aversion towards informality becomes more evident (the data that we rely on in this research show less informal networking in more developed countries of the region) and the role of informality changes from substitutive to complementary. This change is not likely to be simultaneous with institutional improvement, as time is needed to adjust to a formal way of doing things, as already described in the transition literature (Efendic 2010; Williams & Vorley 2015).

To conclude, most entrepreneurs pointed explicitly to the tolerance of informal networks towards ethnicity and religion. One respondent argued that ‘in business relationships, ethnic background is irrelevant’.<sup>33</sup> We found sufficient evidence that entrepreneurs work with partners ‘from different social and ethnic groups’.<sup>34</sup> Ethnic intolerance is a persistent challenge for some of the formal institutional environments in the region, associated with ethnically motivated conflicts in the recent past. This is where the role of informal networks can have a healing effect, as business contexts seem to be better suited to accommodate ethnic and religious diversity. In the words of one respondent: ‘Everyone is striving towards the same goal—mutual satisfaction coming from the business done’.<sup>35</sup> It seems that formal institutions in the region can learn to integrate the inclusive logic of informal networks, which one of our respondents expressed as follows:

In my opinion, all formal institutions employ those selected politically. In Croatia, Kosovo, they have the same problem: employees are not in their positions because of their knowledge, experience or effectiveness. There are no criteria of merit there. So they create a barrier, a filter, and select on the basis of ethnic background, political motivation, left or right, a former partisan or not, served in the secret service [*udba*] or not etc. They tell us stories and poison us with their silly ideas. Actually, my conclusion is that political institutions, these formal ones, are mainly politicised, hence, biased in their structure. In contrast, informal institutions are built naturally, from the ground.<sup>36</sup>

<sup>29</sup>Interview BiH\_10, Banja Luka, December 2016.

<sup>30</sup>Interview BiH\_1, Zavidovici, September 2016.

<sup>31</sup>Interview MAC\_3, Skopje, November 2016.

<sup>32</sup>Interview SLO\_11, Slovenj Gradec, November 2016.

<sup>33</sup>Interview BiH\_2, Sarajevo, September 2016.

<sup>34</sup>Interviews: ALB\_1, Tirana, March 2017; BiH\_2, Sarajevo, September 2016; MAC\_2, Berovo, November 2016.

<sup>35</sup>Interview BiH\_2, Sarajevo, September 2016.

<sup>36</sup>Interview CRO\_4, Zagreb, February 2017.

Our data suggest that informal networking is widespread amongst entrepreneurs, even if varied in scope and function across different countries in Southeast Europe. On balance, our respondents concluded that they were motivated by business interests to engage in informal networking rather than by habit, tradition or cultural conformity. Although some entrepreneurs acknowledged the need to adapt to the generally perceived mentality of people in this region, they seemed driven by gaining access and creating opportunities, reducing risks and optimising costs. Our findings support the idea that networks overlap based on participation in multiple cohesive groups, along the lines of Vedres and Stark's conception of intercohesion that implies both the requisite familiarity and means for conducting business and 'diversity for creativity, innovation and brokerage' (Vedres & Stark 2008, p. 1). These key challenges—entrepreneurship, generating novel ideas and securing resources to implement them—are assisted by informal networking.

The Southeast Europe regional specifics, confirmed by the majority of the interviewees, is that informal networks are used primarily to compensate for the failure of formal institutional outcomes: informal networking is used as an efficient mode to cope with burdensome and unnecessary formal institutional challenges.<sup>37</sup> Contacts also help offset political influence over business in a corrupt environment. One correspondent referred to 'swimming in muddy waters'.<sup>38</sup> 'Corruption is everywhere',<sup>39</sup> said another; to even get what they are entitled to by law, entrepreneurs need 'informal connections'.<sup>40</sup>

Competitive advantage is created through informal networks. This was taken for granted by the majority of our respondents but they resented the burden of it and complained about the inefficiency of the formal institutions relevant to business. For example, Kosovo and Albania had the worst formal institutional environments for business in our sample, and a higher proportion of entrepreneurs from those countries reported using informal networks. In North Macedonia, the purpose of informal networking was largely associated with coping with political interference in business, while in Slovenia and Croatia entrepreneurs used their informal networks to a lesser extent and associated them largely with consultation, business promotion and 'targeting new clients together'.<sup>41</sup>

Although informal networking was frequently used in Southeast Europe and firmly integrated into the business culture of these societies, it was not generally perceived

<sup>37</sup>Interviews: BiH\_1, Zavidovici, September 2016; BiH\_3, Sarajevo, September 2016; BiH\_4, Sarajevo, September 2016; BiH\_6, Sarajevo, November 2016; BiH\_7, Sarajevo, December 2016; BiH\_8, Sarajevo, December 2016; KOS\_3, Mitrovica, February 2017; KOS\_5, Skenderaj, February 2017; ALB\_1, Tirana, March 2017; ALB\_2, Tirana, March 2017; MAC\_1, Skopje, November 2016; MAC\_3, Skopje, November 2016; MAC\_6, Skopje, November 2016; SRB\_1, Niš, January 2017; SRB\_3, Zaječar, January 2017; SRB\_6, Niš, February 2017; SRB\_8, Niš, January 2017.

<sup>38</sup>Interview MAC\_3, Skopje, November 2016.

<sup>39</sup>Interview SRB\_3, Zaječar, January 2017.

<sup>40</sup>Interview BiH\_4, Sarajevo, September 2016.

<sup>41</sup>Interviews: MAC\_4, Skopje, November 2016; MAC\_6, Skopje, November 2016; MAC\_8, Skopje, December 2016; SLO\_1, Maribor, December 2016; SLO\_2, Murska Sobota, November 2016; SLO\_4, Maribor, November 2016; SLO\_8, Kampolin, December 2016; SLO\_12, Grobelno, December 2016; SLO\_17, Ljubljana, December 2016; CRO\_1, Zagreb, February 2017; CRO\_2, Zagreb, February 2017; CRO\_4, Zagreb, February 2017.



as something positive, even if used, but rather as a necessity in order ‘to get things done’. Once the formal institutional environment for business improves, as in North Macedonia, one of the best non-EU performers amongst the countries that we follow in this research, informal networks are less frequently used (according to data from INFORM interviews). The open secret here is that individuals benefit from informal networking but disapprove of others doing the same.

*The cost of informal networking: expense or investment?*

Most entrepreneurs in Southeast Europe countries have strong incentives to support their informal networks. Since networking is an important factor in their business success, spending time and money on it is often perceived as a long-term investment.<sup>42</sup> The predominant narrative used by entrepreneurs was voiced by a Slovenian respondent: ‘Of course it’s important to invest time and money into these networks. These networks are hard to establish and you have to keep them alive. Spending time and money is therefore regarded as an investment’.<sup>43</sup>

Like any other economic investment, investing in informal networking has its own risks and long-term effects: ‘Informal networking is investment with potential returns’.<sup>44</sup> Consequently, the ‘expected return’ may not be immediate and some sort of balance or equilibrium can be achieved over a longer time horizon: ‘Even if someone is not giving enough in a certain moment, this is balanced over time’.<sup>45</sup> Moreover, the invested time and money does not include only monetary benefits but also non-monetary returns through exchange of favours, mutual help and moral support (Ledeneva 1998). An illustrative explanation of informal networking principles of investment and returns is provided by a Slovenian entrepreneur:

Of course these people can count on me. Practically, this means that if one of them invites you for a coffee, you have to make time to have a coffee with him. If another invites you for a picnic, you have to make time to have a picnic with him. If somebody needs you for a talk, you have to find time to listen to him. If your help is needed in any way, you have to find time and resources to help. It’s a mutual exchange of help and favours. It’s a circle of friends, based on mutual social exchange, otherwise it wouldn’t work. And it’s all oriented to the long-term.<sup>46</sup>

We found in our study that establishing, maintaining and growing informal networks does not come for free. Even if an individual ‘inherits’ a network rather than building their

<sup>42</sup>Interviews: ALB\_5, Tirana, March 2017; CRO\_2, Zagreb, February 2017; CRO\_4, Zagreb, February 2017; KOS\_1, Mitrovica, February 2017; SRB\_7, Leskovac, January 2017; SLO\_4, Maribor, November 2016; SLO\_17, Ljubljana, December 2016; SLO\_20, Hoce, November 2016.

<sup>43</sup>Interview SLO\_4, Maribor, November 2016.

<sup>44</sup>Interview KOS\_1, Mitrovica, February 2017.

<sup>45</sup>Interview CRO\_2, Zagreb, February 2017.

<sup>46</sup>Interview SLO\_20, Hoce, November 2016.

own, the network requires maintenance and investment, as explained by a respondent from BiH:

In my case, it is a little bit different. When I was starting my business career, someone else had done most of the job for me: my grandparents and my father, and the rest ... they opened avenues [informal networks] for me, which I just have to keep and maintain a little bit.<sup>47</sup>

Such inherited informal networks are just as functional as those self-made but can be trickier to master and maintain. One might invest more money than time: some entrepreneurs suggest that it is more difficult or costly to them to devote time than the money generally, and particularly this can apply to circumstances where friendships cannot be developed, which may result in a shorter period of reciprocation. This implies that informal networking can operate as social capital and can be transferable, at least in high trust environments like a family circle, but these themes require a further investigation.

Maintaining informal ties by satisfying reciprocal demands and thus reproducing trust relationships generates cost. In other words, belonging to the network creates obligations towards the other members of the network, an implicit contract binding participants into an economy of favours. As one entrepreneur put it:

Although certain things can be done without these acquaintances, stronger ties [for example, with family] and weaker connections [for example, with friends], it is much easier when you know someone personally, and then that the person owes you, and then you owe them, and then you return the favour, and so on.<sup>48</sup>

Therefore, whatever advantages are gained from belonging to a network (incurring fewer transaction costs), they are counterbalanced by the obligations of the implicit contract. In Bourdieu's terms, such an implicit contract consists of 'institutional rites' and gift-giving that transform 'contingent relations, such as those of neighborhood, the workplace, or even kinship, into relationships that are at once necessary and elective, implying durable obligations subjectively felt' (Bourdieu 1986, pp. 249–50). These obligations, described as 'I try to return the favour',<sup>49</sup> go hand-in-hand with the relationship of reciprocal trust, but may result in an over-exploitation of one's resources (or access to resources) by other members of the network and lead to a free-rider problem.

Indeed, belonging to a close social network, with sanctions to enforce the implicit contract, can subject members to restrictive social pressure and limit their economic rights and individual freedom. All kinds of levelling pressures keep members in the same situation as their peers, and strong collective norms in communities may restrict the scope of individuals (Portes & Sensenbrenner 1993). Non-compliance with the demands of membership can also result in a loss of reputation. It is belonging to the closed networks, rather than networks *per se*, that reduces adaptive capacity and

<sup>47</sup>Interview BiH\_8, Sarajevo, December 2016.

<sup>48</sup>Interview SRB\_3, Zaječar, January 2017.

<sup>49</sup>Interview BiH\_7, Sarajevo, December 2016.

carries the dangers of lock-in effects, exacerbated by cognitive dissonance in tight groups (Meyerson 1994). Individuals who belong to a dense network tend to develop an in-group commitment. Information that disturbs the group's shared perception of reality is likely to be rejected. Belonging to a network seems to yield positive results, up to a certain threshold. As an entrepreneur becomes personally successful, their time and freedom become more valuable. Hence, the positive effects of being a member of a network can also have negative effects. A similar 'lock-in effect' is found at the level of sectors, localities and regions. Especially for de-industrialised regions, part of the problem is that individuals are locked into institutional structures that were relevant to an earlier phase of economic development, which at some point constitute a barrier to moving down a new path of development (Grabher & Stark 1997; Uzzi 1999).

*Conclusion: double standards and ambivalence towards informal networks*

We analysed both qualitative and quantitative data obtained from the interviews with 70 entrepreneurs in seven countries of Southeast Europe in order to estimate the extent and purpose of informal networking. Our empirical data revealed that informal networking costs, estimated in terms of money and time, correlated with the size of the networks, the size of the company and the type of industry (being higher in the service sector than the production sector). We also found a pattern at the regional level: informal networking costs were higher in less advanced countries in terms of institutional framework, economic performance and EU integration.

We found a degree of ambivalence in the perception of informal networks in the region, reflected in the following double standards. Informal networking was accepted when it helped business but resented if it helped the business of competitors. Entrepreneurs criticised informal networks when these created a burden for the economy or a personal burden of obligation but appreciated them when they provided a competitive advantage. Thus, informality was disapproved of in the context of state formal institutions but accepted in personalised contexts, when it was the 'only possible way of doing business'.<sup>50</sup> As formal institutions and the business climate improve, the aversion towards informality becomes more evident. To decrease the role of informal networking in mediating state-business relationships, it is essential to improve the efficiency of formal institutions, to ensure better EU integration, and to create alternatives to the instrumental use of informal networks. Pointing out double standards may also help to shift the social norm of resorting to informal networks and to question their legitimacy. Overcoming informality is a collective action problem, however, and will take time. The essential point is that it is not the informal networks that need to be tackled in policy but the double standards surrounding them.

The finding on ethnic or religious tolerance within informal networks also has policy implications for Southeast Europe, where formal institutional settings suffer from lack of

<sup>50</sup>Interview SLO\_11, Slovenj Gradec, November 2016.

diversity. Informal networks are presumed to be homogeneous, so the existence of heterogeneous networks in Southeast Europe is relevant to network studies.

ALENA LEDENEVA, University College London, Gower Street, WC1E 6BT, London, UK.  
*Email: a.ledeneva@ucl.ac.uk*

ADNAN EFENDIC, School of Economics and Business, University of Sarajevo, Trg  
 Oslobodjenja A.I. 1, 71000 Sarajevo, Bosnia & Hercegovina.  
*Email: adnan.efendic@efsa.unsa.ba*

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*Appendix 1. Institutional environment and business performance in Southeast Europe*

TABLE A1  
INSTITUTIONAL ENVIRONMENT IN SOUTHEAST EUROPE VIEWED THROUGH  
DIFFERENT INDICES

| <i>Country</i>     | <i>WB GE<br/>2018</i> | <i>WB RQ<br/>2018</i> | <i>WB RL<br/>2018</i> | <i>WB CC<br/>2018</i> | <i>IEF PP<br/>2019</i> | <i>IEF JE<br/>2019</i> | <i>IEF GI<br/>2019</i> |
|--------------------|-----------------------|-----------------------|-----------------------|-----------------------|------------------------|------------------------|------------------------|
| Albania            | 57.7                  | 63.5                  | 39.4                  | 35.1                  | 54.8                   | 30.6                   | 40.4                   |
| BiH                | 28.4                  | 45.2                  | 46.6                  | 31.7                  | 40.2                   | 37.9                   | 30.2                   |
| Croatia            | 69.2                  | 68.3                  | 63.0                  | 60.1                  | 66.0                   | 42.9                   | 38.6                   |
| Kosovo             | 38.0                  | 41.4                  | 40.4                  | 35.6                  | 57.2                   | 53.5                   | 44.7                   |
| North<br>Macedonia | 55.8                  | 71.6                  | 43.8                  | 42.3                  | 65.1                   | 60.7                   | 44.7                   |
| Montenegro         | 58.2                  | 65.9                  | 57.7                  | 58.2                  | 55.4                   | 51.8                   | 39.5                   |
| Serbia             | 56.7                  | 56.3                  | 49.0                  | 41.8                  | 50.1                   | 44.8                   | 37.2                   |
| Slovenia           | 83.2                  | 75.0                  | 82.7                  | 80.8                  | 76.4                   | 46.5                   | 53.6                   |

*Notes:* WB refers to the World Bank's governance indicators: GE (Government Effectiveness), RQ (Regulatory Quality), RL (Rule of Law) and CC (Control of Corruption). Countries are assigned a global percentile ranking (0–100). The Heritage Foundation Index of Economic Freedom (IEF) measures PP (Property Rights), JE (Judicial Effectiveness) and GI (Government Integrity) on a scale of 0–100.

*Sources:* World Bank (2019); Miller *et al.* (2019).

*Appendix 2. List of participants/interviewees*

TABLE A2

|        | Type of business                           | Company years of operation | Respondent age category | Number of employees | Location   | Date*          |
|--------|--------------------------------------------|----------------------------|-------------------------|---------------------|------------|----------------|
| BiH_1  | Civil engineering construction             | 21–25                      | 51–60                   | 11–50               | Zavidovici | September 2016 |
| BiH_2  | Automotive                                 | 0–5                        | 31–40                   | 0–10                | Sarajevo   | September 2016 |
| BiH_3  | Production of polymers                     | 16–20                      | 51–60                   | 51–250              | Sarajevo   | September 2016 |
| BiH_4  | Land and real estate agency                | 0–5                        | 21–30                   | 0–10                | Sarajevo   | September 2016 |
| BiH_5  | Accounting agency                          | 0–5                        | 21–30                   | 0–10                | Sarajevo   | September 2016 |
| BiH_6  | Business/start-up                          | 0–5                        | 21–30                   | 11–50               | Sarajevo   | November 2016  |
| BiH_7  | Business/start-up                          | 0–5                        | 21–30                   | 11–50               | Sarajevo   | December 2016  |
| BiH_8  | Association of entrepreneurs               | 16–20                      | 51–60                   | 0–10                | Sarajevo   | December 2016  |
| BiH_9  | Association of entrepreneurs               | 16–20                      | 31–40                   | 0–10                | Sarajevo   | December 2016  |
| BiH_10 | Civil engineering construction             | 36–40                      | 51–60                   | 0–10                | Banja Luka | December 2016  |
| BiH_11 | Family winery                              | 36–40                      | 41–50                   | 0–10                | Ljubuski   | December 2016  |
| BiH_12 | Wood industry                              | 0–5                        | 31–40                   | 0–10                | Zavidovici | December 2016  |
| BiH_13 | Catering industry                          | 16–20                      | 41–50                   | 51–250              | Jajce      | December 2016  |
| BiH_14 | Catering industry                          | 0–5                        | 21–30                   | 0–10                | Ravno      | December 2016  |
| BiH_15 | Private university                         | 0–5                        | 31–40                   | 0–10                | Travnik    | December 2016  |
| BiH_16 | Mobile phone store and landscaping company | 0–5                        | 21–30                   | 0–10                | Jajce      | December 2016  |
| MAC_1  | Health food stores                         | 0–5                        | 21–30                   | 11–50               | Skopje     | November 2016  |
| MAC_2  | Hotel                                      | 11–15                      | 31–40                   | 11–50               | Berovo     | November 2016  |
| MAC_3  | Marketing agency                           | 16–20                      | 41–50                   | 11–50               | Skopje     | November 2016  |
| MAC_4  | Accounting agency                          | 21–25                      | 61–70                   | 0–10                | Skopje     | November 2016  |
| MAC_5  | Dairy factory                              | 11–15                      | 51–60                   | 11–50               | Skopje     | November 2016  |
| MAC_6  | Catering industry                          | 26–30                      | 41–50                   | 11–50               | Skopje     | November 2016  |
| MAC_7  | Online retail company                      | 0–5                        | 31–40                   | 11–50               | Skopje     | December 2016  |
| MAC_8  | Private high school                        | 6–10                       | 31–40                   | 11–50               | Skopje     | December 2016  |

*(Continued)*

TABLE A2 (Continued)

|        | Type of business                    | Company years of operation | Respondent age category | Number of employees | Location          | Date*         |
|--------|-------------------------------------|----------------------------|-------------------------|---------------------|-------------------|---------------|
| MAC_9  | Pharmaceutical company distribution | 21–25                      | 41–50                   | 0–10                | Skopje            | November 2016 |
| MAC_10 | Metallurgy company                  | 21–25                      | 31–40                   | 0–10                | Skopje            | November 2016 |
| SLO_1  | Service sector                      | 0–5                        | 31–40                   | 0–10                | Maribor           | December 2016 |
| SLO_2  | Service sector—house maintenance    | 6–10                       | 41–50                   | 0–10                | Murska Sobota     | November 2016 |
| SLO_3  | Service sector—mechanic             | 0–5                        | 41–50                   | 0–10                | Maribor           | November 2016 |
| SLO_4  | Restaurant                          | 0–5                        | 41–50                   | 0–10                | Maribor           | November 2016 |
| SLO_5  | Service sector—electrician          | 21–25                      | 51–60                   | 0–10                | Slovenske Konjice | November 2016 |
| SLO_6  | Research institute                  | 0–5                        | 31–40                   | 0–10                | Ljubljana         | November 2016 |
| SLO_7  | Catering industry                   | 16–20                      | 51–60                   | 11–50               | Maribor           | December 2016 |
| SLO_8  | Restaurant                          | 0–5                        | 31–40                   | 0–10                | Kampolin          | December 2016 |
| SLO_9  | Marketing agency                    | 6–10                       | 31–40                   | 0–10                | Maribor           | November 2016 |
| SLO_10 | Marketing agency                    | 0–5                        | 31–40                   | 0–10                | Ljubljana         | December 2016 |
| SLO_11 | Computer shop                       | 0–5                        | 21–30                   | 0–10                | Slovenj Gradec    | November 2016 |
| SLO_12 | Service sector—hairdressing         | 26–30                      | 41–50                   | 0–10                | Grobelno          | December 2016 |
| SLO_13 | Wood industry                       | 26–30                      | 51–60                   | 0–10                | Zrece             | November 2016 |
| SLO_14 | Cosmetic industry                   | 6–10                       | 21–30                   | 11–50               | Celje             | November 2016 |
| SLO_15 | Service sector—hairdressing         | 0–5                        | 21–30                   | 0–10                | Velenje           | November 2016 |
| SLO_16 | Farming                             | 11–15                      | 11–20                   | 0–10                | Maribor           | November 2016 |
| SLO_17 | Electric power distribution         | 6–10                       | 41–50                   | 11–50               | Ljubljana         | December 2016 |
| SLO_18 | Plastic products for construction   | 16–20                      | 51–60                   | 0–10                | Celje             | November 2016 |
| SLO_19 | Online retail                       | 16–20                      | 41–50                   | 11–50               | Jarenina          | November 2016 |
| SLO_20 | Service sector—mechanic             | 0–5                        | 31–40                   | 0–10                | Hoce              | November 2016 |
| SRB_1  | Production of plastic derivates     | 6–10                       | 31–40                   | 11–50               | Niš               | January 2017  |
| SRB_2  | Health industry—stomatology         | 6–10                       | 31–40                   | 0–10                | Pirot             | January 2017  |
| SRB_3  | Catering industry                   | 6–10                       | 31–40                   | 0–10                | Zaječar           | January 2017  |
| SRB_4  | Service sector—hairdressing         | 21–25                      | 51–60                   | 0–10                | Vranje            | January 2017  |
| SRB_5  | Private music school                | 0–5                        | 41–50                   | 0–10                | Niš               | February 2017 |

(Continued)



TABLE A2 (Continued)

|       | Type of business                | Company years of operation | Respondent age category | Number of employees | Location  | Date*         |
|-------|---------------------------------|----------------------------|-------------------------|---------------------|-----------|---------------|
| SRB_6 | Design agency                   | 6–10                       | 31–40                   | 0–10                | Niš       | February 2017 |
| SRB_7 | Cosmetic industry               | 11–15                      | 51–60                   | 0–10                | Leskovac  | January 2017  |
| SRB_8 | Tectonics sector                | 11–15                      | 51–60                   | 0–10                | Niš       | January 2017  |
| SRB_9 | Purchase and processing of milk | 6–10                       | 51–60                   | 51–250              | Niš       | January 2017  |
| ALB_1 | Private high school             | 0–5                        | 41–50                   | 51–250              | Tirana    | March 2017    |
| ALB_2 | Automotive                      | 0–5                        | 41–50                   | 0–10                | Tirana    | March 2017    |
| ALB_3 | IT company                      | 0–5                        | 41–50                   | 11–50               | Tirana    | March 2017    |
| ALB_4 | Trade, industrial materials     | 16–20                      | 41–50                   | 11–50               | Tirana    | March 2017    |
| ALB_5 | Publishing house                | 11–15                      | 41–50                   | 11–50               | Tirana    | March 2017    |
| CRO_1 | Electrical goods wholesaler     | 0–5                        | 41–50                   | 0–10                | Zagreb    | February 2017 |
| CRO_2 | Marketing agency                | 6–10                       | 31–40                   | 11–50               | Zagreb    | February 2017 |
| CRO_3 | Hotel                           | 0–5                        | 51–60                   | 11–50               | Zagreb    | February 2017 |
| CRO_4 | IT company                      | 21–25                      | 41–50                   | 11–50               | Zagreb    | February 2017 |
| CRO_5 | Lighting designer               | 6–10                       | 41–50                   | 11–50               | Zagreb    | February 2017 |
| KOS_1 | Production of polymers          | 16–20                      | 31–40                   | 11–50               | Mitrovica | February 2017 |
| KOS_2 | Retail and production           | 6–10                       | 41–50                   | 11–50               | Mitrovica | February 2017 |
| KOS_3 | Catering industry               | 26–30                      | 51–60                   | 11–50               | Mitrovica | February 2017 |
| KOS_4 | Wood industry                   | 11–15                      | 41–50                   | 0–10                | Mitrovica | February 2017 |
| KOS_5 | Civil engineering construction  | 16–20                      | 41–50                   | 11–50               | Skenderaj | February 2017 |

Note: \* The exact dates of interviews are not reported for discretionary purposes.