PERCEPTIONS OF CORRUPTION AND INFORMALITY AMONG BUSINESSPEOPLE

Barbara Frey, Bruno Škrinjarić, Jelena Budak

Abstract

This research assesses perception of corruption in business-to-business and business-to-government interactions by using empirical evidence from Serbia. Based on the survey data, it captures the perceptions of corruption of business owners and managers of small and medium enterprises (SMEs) and examines their attitudes towards informal, licit, or illicit, business practices. The typology of SMEs according to their opinion on corruption- and institutional-related obstacles resulted in three different clusters, based on several variables. Moreover, empirical findings show that business is not much 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 where 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.

Barbara Frey, MA (corresponding author)
PhD student
Faculty of Business, Economics and Management Information Systems, University of Regensburg
Universitätsstraße 31
93053 Regensburg
Germany
barbara.frey@ur.de
ORCID: 0000-0001-7960-2095

Bruno Škrinjarić, PhD
Research associate
Institute of Economics, Zagreb
Croatia
bskrinjaric@eizg.hr
ORCID: 0000-0002-5969-1948

Jelena Budak, PhD
Senior research fellow in permanent position
Institute of Economics, Zagreb
Croatia
jbudak@eizg.hr
ORCID: 0000-0003-3739-4704

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. Research Framework and Literature Review

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. 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 to the 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 McCorriston 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.

3. Data and Methodology

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.

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.

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.

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
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
Firm is multinational			
No	74	0.73	0.44
Yes	18	0.18	0.38
No info	9	0.09	0.29

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.

4. Results

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

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
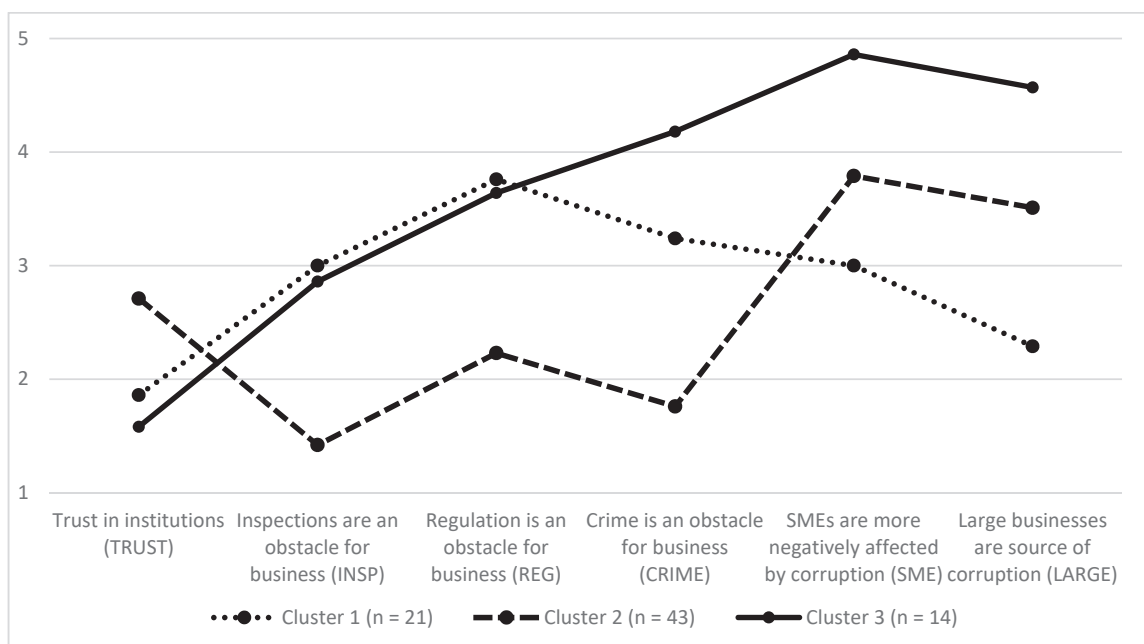
more demanding empirical econometric analysis. All three groups have low levels of trust in institutions and differ largely in corruption-related variables.

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 prevalently 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.

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.

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 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.

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).

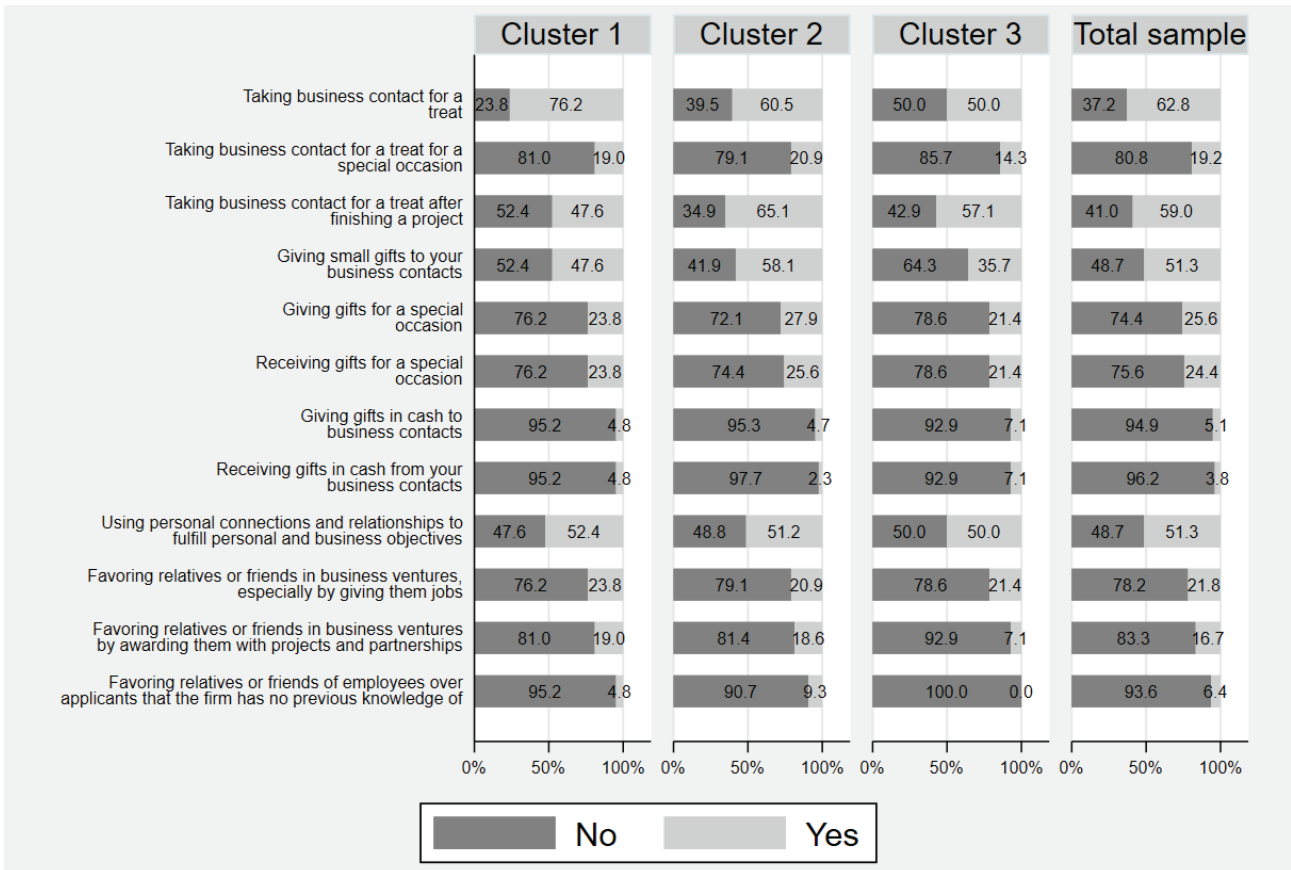**Figure 2. What are acceptable behaviors and gifts in business?**

	Cluster 1		Cluster 2		Cluster 3		Total sample	
	No	Yes	No	Yes	No	Yes	No	Yes
Taking business contact for a treat	23.8	76.2	39.5	60.5	50.0	50.0	37.2	62.8
Taking business contact for a treat for a special occasion	81.0	19.0	79.1	20.9	85.7	14.3	80.8	19.2
Taking business contact for a treat after finishing a project	52.4	47.6	34.9	65.1	42.9	57.1	41.0	59.0
Giving small gifts to your business contacts	52.4	47.6	41.9	58.1	64.3	35.7	48.7	51.3
Giving gifts for a special occasion	76.2	23.8	72.1	27.9	78.6	21.4	74.4	25.6
Receiving gifts for a special occasion	76.2	23.8	74.4	25.6	78.6	21.4	75.6	24.4
Giving gifts in cash to business contacts	95.2	4.8	95.3	4.7	92.9	7.1	94.9	5.1
Receiving gifts in cash from your business contacts	95.2	4.8	97.7	2.3	92.9	7.1	96.2	3.8
Using personal connections and relationships to fulfill personal and business objectives	47.6	52.4	48.8	51.2	50.0	50.0	48.7	51.3
Favoring relatives or friends in business ventures, especially by giving them jobs	76.2	23.8	79.1	20.9	78.6	21.4	78.2	21.8
Favoring relatives or friends in business ventures by awarding them with projects and partnerships	81.0	19.0	81.4	18.6	92.9	7.1	83.3	16.7
Favoring relatives or friends of employees over applicants that the firm has no previous knowledge of	95.2	4.8	90.7	9.3	100.0	0.0	93.6	6.4

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

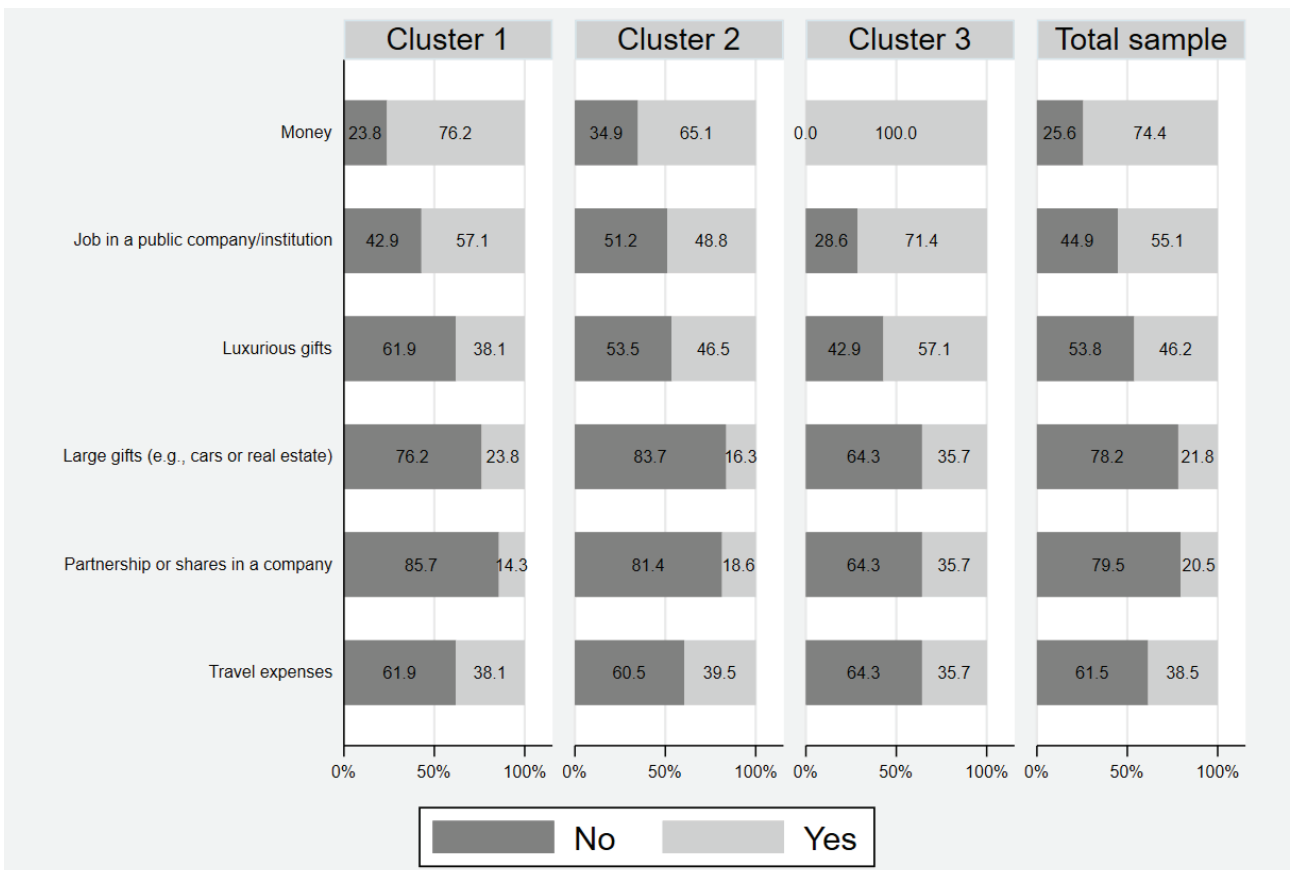|	Cluster 1		Cluster 2		Cluster 3		Total sample	
	No	Yes	No	Yes	No	Yes	No	Yes
Money	23.8	76.2	34.9	65.1	0.0	100.0	25.6	74.4
Job in a public company/institution	42.9	57.1	51.2	48.8	28.6	71.4	44.9	55.1
Luxurious gifts	61.9	38.1	53.5	46.5	42.9	57.1	53.8	46.2
Large gifts (e.g., cars or real estate)	76.2	23.8	83.7	16.3	64.3	35.7	78.2	21.8
Partnership or shares in a company	85.7	14.3	81.4	18.6	64.3	35.7	79.5	20.5
Travel expenses	61.9	38.1	60.5	39.5	64.3	35.7	61.5	38.5

Figure 4. Propensity for 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?

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).
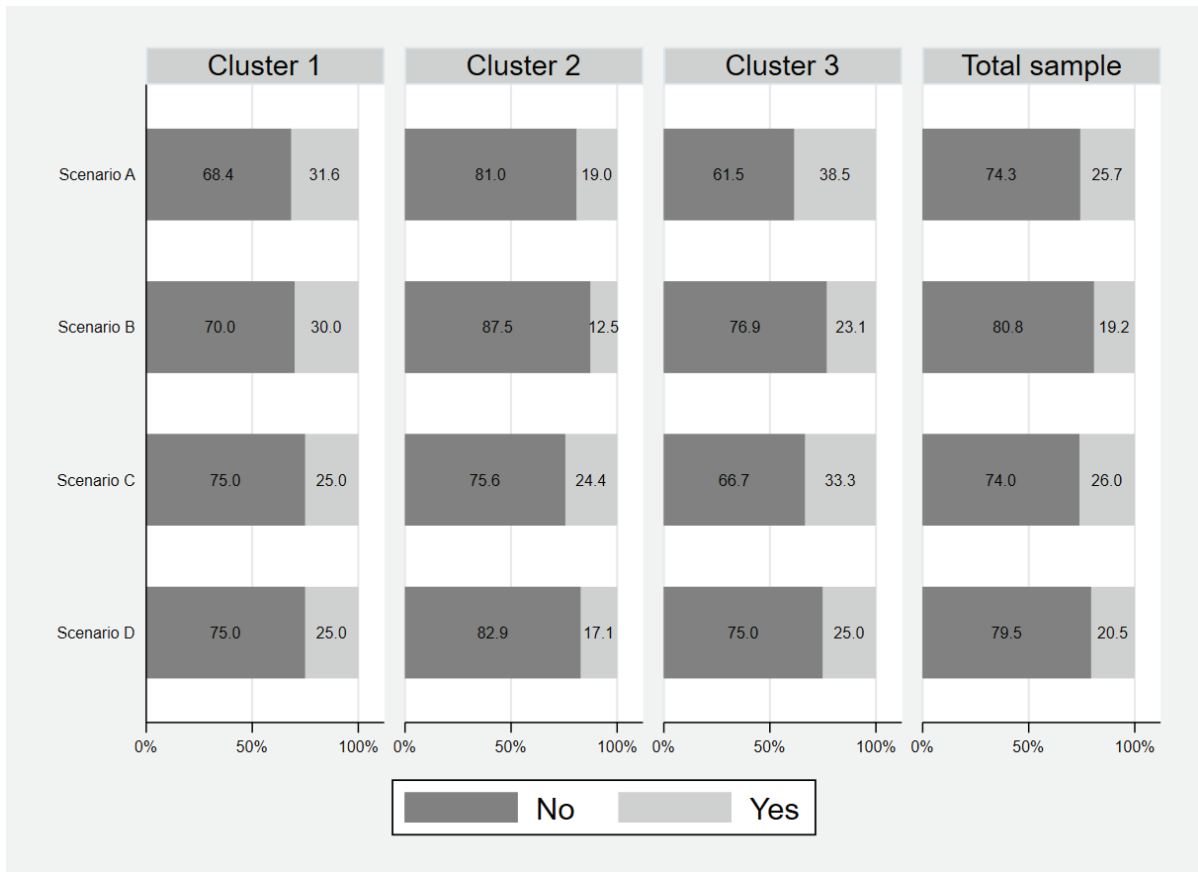
Figure 5. B2G bribes in favors
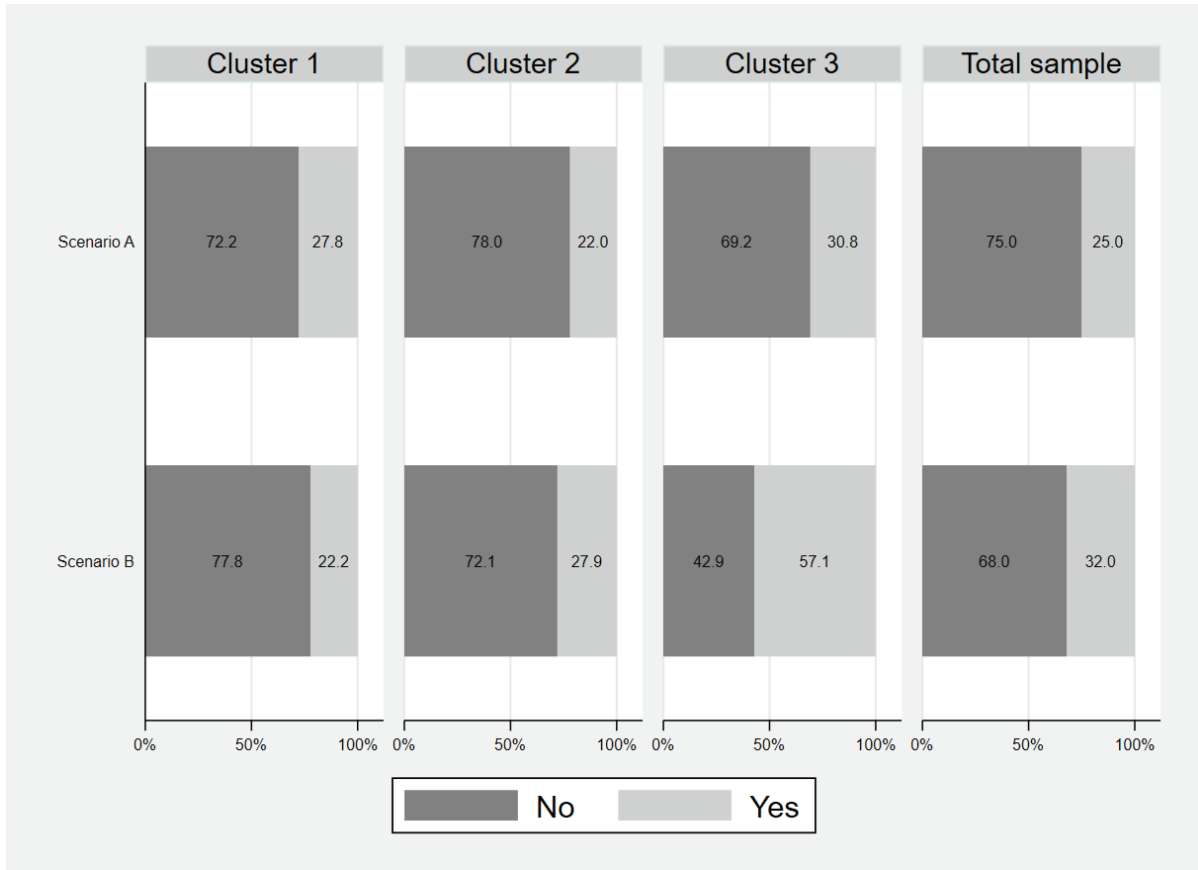
Notes: Different scenarios presented in this figure include:

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.

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 or 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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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 %)	
	Male	26 (33.3 %)	8 (38.1 %)	12 (27.9 %)	6 (42.9 %)	6.317
	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 %)	
	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 %)	5.059
	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 %)	
	Tertiary	33 (42.3 %)	11 (52.4 %)	16 (37.2 %)	6 (42.9 %)	1.741
	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 %)	
	Small	23 (29.5 %)	5 (23.8 %)	12 (27.9 %)	6 (42.9 %)	3.22
	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 %)	
	Manager	14 (17.9 %)	5 (23.8 %)	6 (14 %)	3 (21.4 %)	4.668
	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 %)	
	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 %)	24.223
	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 %)	
	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 %)	3.971
	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 %)	
	Yes	14 (17.9 %)	3 (14.3 %)	10 (23.3 %)	1 (7.1 %)	2.737
	No info	8 (10.3 %)	3 (14.3 %)	4 (9.3 %)	1 (7.1 %)	