

**Entrepreneurship on the margin between
informality and formality:
The textile industry in South-West Serbia**

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ABSTRACT

In this thesis I present a qualitative insight into the development of the textile industry in South Western part of Serbia in the last two decades. I explore the importance of social networks and informal activities on entrepreneurial strategies in the two phases of Serbian post-socialist transformation. Additionally, I use embeddendess as an overarching theoretical concept to explain informal social networks and informal activities, taking into account various social identities as well as norms and values which affect market behavior. I show that, despite an economic crisis, the 1990s was a “Golden age” of the textile industry in Sandžak. I present how, during the blocked post-socialist transformation, the informal sector was the central arena on which textile entrepreneurs performed. In this period informal networks were embedded in other social ties; they facilitated organization of informal activities being alternative sources of trust, resources and moral justification. I also show how changes in macro environment influenced the changed in informal sector and networking as well. Now, entrepreneurs are aware that they cannot base their business strategies only on the informal sector, but they can use it as an auxiliary mechanism creating diversified strategies on the margin and border between formal and informal sectors. Furthermore, the association established in 2000s is a medium between individual producers and local, national and international institutions. The association became a partner with formal institutions, cooperating with them and trying to take advantage of cooperation.

Table of Content

INTRODUCTION	1
CHAPTER 1: THE EMBEDDEDNESS OF ECONOMIC ACTIONS AS A THEORETICAL FRAMEWORK	5
1.1. Entrepreneurship in post-socialist context	8
1.1.1. <i>Weak normative and institutional framework as a context for entrepreneurial action</i>	9
1.1.2. <i>Trust and cooperation in uncertain business context</i>	10
1.2. Social networks between trust, solidarity, passivity and stagnation	13
1.3. Informal economy: survival or growth?	15
CHAPTER 2: METHODOLOGY AND HYPOTHESIS	21
CHAPTER 3: ECONOMIC AND POLITICAL CONTEXT FOR DEVELOPMENT OF THE TEXTILE INDUSTRY IN SANDŽAK	24
3.1. Case: Sandžak	24
3.2. Factors which influence development of the textile industry in Sandžak	26
3.3. Blocked post-socialist transformation during the 1990s	29
3.4. Unblocked post-socialist transformation during the 2000s	31
3.4.1. <i>Changes in business strategies</i>	32
CHAPTER 4: FROM COLLABORATIVE TO PROFESSIONALIZED NETWORKS	36
4.1. Strong- tie networks as a source of trust during the 1990s	36
4. 2. Creating professional association: changes in networking during the 2000s	38
CHAPTER 5: FROM JUSTIFYING TO NEGATING INFORMAL ACTIVITIES	45
5.1. Informal and illegal activities as a part of business strategy during the 1990s	45
5. 2. On the margin: Changes in informality during the 2000s	50
CONCLUSION	54
APPENDIX	57
REFERENCE LIST	59

INTRODUCTION

Informal economic practices and social networks play a significant role in a formulating household and business strategies. Investigating the informal sector is an important intellectual task because informal and formal economies are two integrated scenes on which production and exchange take place; they influence economic systems and individual life chances. Although the phenomenon of gray economy is universal, the exploration of the gray economy has a special meaning for the research of post-socialistic countries.

In the process of post-socialist transformation, the establishment of the market and market relations played an important symbolic role as the market has served as a ‘political icon’ (Carrier, 1997:1). During the process of post-socialist transformation, academic as well as public explanations and expectations toward establishing the new capitalist system changed. Paradigms and public policies also transformed according to transitional experience and reality. The “transitional discourse” has changed through the notion of “road to freedom” to more skeptical and cynical predictions and expectations. Simplistic and unifying model of liberalization, stabilization and privatization is replaced by a model which takes into account values, norms and social networks. This means that it is not sufficient to implement new economic and political institutions but societies need to create a new system of the values and norms which are in harmony with the capitalist system.

The theories of post-socialist transformation should consider formal and informal norms and networks from the socialist era. All economic systems are embedded in social context; individuals’ behaviors are rooted in system of social relations, based on shared norms

(Granovetter, 1985). Since formal as well as informal institutions create a context for economic practices, a simple dichotomy between formal and informal economic practices is not possible. The analysis of contemporary labor markets must go beyond that simplification and we cannot observe formal and informal sectors as “separate, stable and bounded realms” (Williams, 2008: 117). In my thesis, I will use the theoretical concept of embeddedness for explaining how wider social context influence on the economic action and economic strategies. In particular, I will explain how economic phenomena of entrepreneurship, informality and networks are connected with the concept of embeddedness. The concept of embeddedness stresses the importance of personal relations and networking in a solving the problem of disorder and trust among business partners.

Although there are a lot of researches about macro -economic indicators of the Serbian informal sector (Krstić 1998, Mrkšić 1994, Cvejić 2002), there is no qualitative research about informal practices. For that reason, I will try to uncover the field of economic activities which unfolds in the background of official state affairs on the micro level and connect it with the macro level. In this thesis I examine the conditions and constraints for entrepreneurship offered by the existing uncertain institutional context and what informal mechanisms they use in order to create a more reliable economic environment. Particularly, I have chosen the case of Sandžak, the South Western part of Serbia to describe how uncertain political, institutional and social framework shape private entrepreneurial decisions. I focus on particular sub-sector of private garment industry, the denim jeans production.

In order to answer research questions I use qualitative method for collecting and analyzing data. My idea is to describe dynamics of informal economy and structure of networks and normative framework in which individuals operate in South Western part of Serbia. With

that purpose, I conducted 12 interviews with local entrepreneurs and experts. As it follows, I investigate the characteristics of the owners of small businesses who participate in the textile sector in the South West of Serbia. In order to find answer to research question I conducted interviews with manager of association of textile entrepreneurs ASSTEX, with two sociologists and one professor from Faculty of Economics in Novi Pazar. Additionally, the micro-sociological inquiry will answer to the question how informal entrepreneurs cope with crisis and how they use networks to recombine their resources.

Specific historical, economic and political factors influence the economic development of the Sandžak region. The textile industry in Novi Pazar developed in the specific context of a deep economic and political crisis in the early and mid 1990s. This was an unpredictable and uncertain context for economic investments and planning. On the other side, instability, the weak state regulations and the lack of international control gave the space for formulating opportunistic informal economic strategies. The uncertain social context influenced the creation of entrepreneurial strategies. Entrepreneurs had to deal with the problems of mistrust and malfeasance. My work will focus on two main mechanisms they use in order to obtain business success in uncertain context: building interpersonal networks and engaging in informal activities. I will also follow how the perception of these mechanisms is changed through the process of post-socialist transformation.

Firstly, during the 1990s this region was popular as a “valley of the jeans” with a vibrant informal private sector of denim production as a result of individual initiative and personal networks. Entrepreneurs in Novi Pazar used general economic, political, institutional and normative chaos of that time when there were no international control and strict state regulation. One of the astonishing characteristics of the 1990s was a boom of informal small and medium

enterprises (SMEs) in this region. Entrepreneurial jeans firms sprang up in the completely grey market. At that time family workshops sprung up and produced casual wear, especially denim jeans copying popular models and using foreign brand-names.

Secondly, as an economic and political environment changed in the period of “unblocked” post-socialist transformation. During the 2000s the private textile sector in Sadžak region is faced with profound changes. After 2000, entrepreneurs were obliged to shift to the formal market and to move to the “formal” bookkeeping. Consequently, political and economic climate in the 2000s had negative repercussions on the “wild” textile sector in Sadžak. Because of stronger state regulation, most of the firms did not adopt successful new strategies. The reason for this is changed “rules of the game” and fierce competition.

In the following theoretical chapter I will introduce the concepts of embeddedness, social networks and the informal economy. Furthermore, I will discuss how post-socialist transformation influence entrepreneurship. Additionally, I present some opinions about social networks and the informality and how they affect entrepreneurial behavior. Then a methodological chapter follows. In the third chapter I will explain how the particular economic and political context of Serbian post-socialist transformation affects the performing the textile industry in the Sandžak region. In the fourth chapter I will show how the textile manufactures change their social networks. Finally, the fifth chapter will trace changes in perception and practice of informal activities.

CHAPTER 1: THE EMBEDDEDNESS OF ECONOMIC ACTIONS AS A THEORETICAL FRAMEWORK

The concept of embeddedness is one of the well-known and often cited terms in economic sociology and economic anthropology. Economic sociology and economic anthropology as academic disciplines emerged as a radical critique of neoclassical economics and the “the revision of economic orthodoxy” (Hart, 1990:155). This notion is used for explaining the influence of variety different social and cultural phenomena on economic life. This means that economic processes are not part of a separate subsystem of society reserved for economic analysis, they are an aspects of social practices legitimate for anthropological observation (Plattner, 1989: 14). Embeddedness is an overarching concept I use for explaining informal social networks and informal activities, taking into account that various social identities as well as norms and values affect market behavior.

Economic principles cannot truly explain and foresee behaviors, motives and performances of economic actors (Granovetter, 1985). The reason is that economic actors adopt different logic of behavior than economic explanations (Uzzi, 1996: 676). Many phenomena and mechanisms blur the economic concepts of “absolutization of the market” (Barber, 1995). If we apply concepts of embeddedness we can see that individuals are not perfect rational individuals pursuing economic goals and maximization of their utilities but they develop relationships of solidarity and trust. Opposite to the market logic, individuals create personalized and non-pragmatically created economic relations which can be source of trust and predictability. Furthermore, different social identities and social capital play important role in creating economic relationships (Portes and Sensenbrenner, 1993), because social ties are indispensable in any economic transaction and relation. As Granovetter (1985:139) concludes:

“The persistence of institutions based on personal relations long past the point of demise predicted by the argument that optimally efficient markets must be based on impersonal transactions”. In a similar manner, Uzzi defines social embeddedness as ”the degree to which commercial transactions take place through social relations and networks of relations that use exchange protocols associated with social, non-commercial attachments to govern business dealings” (Uzzi, 1999: 482).

Mark Granovetter criticizes economists who use under-socialized and sociologist who use over-socialized conception which state that norms and customs overwhelm human behaviors, so they do not have opportunity to choose and actively change social conditions. Granovetter states that both mentioned conceptions perceive actors as “atomized”, which means that social reality does not influence their behavior but only personal interests or social norms. Instead of both over- and under- socialized approach, Granovetter offers a middle option introducing the concept of “embeddedness” of economic behavior and particular social context (Granovetter, 1990: 97). The example of middle-range approach is network analysis which presents “a third way” between methodological individualism and structural approach (Smith-Doer and Powell, 2005: 379). Furthermore, Podolny and Page (1998: 59) define networks as “any collection of actors that pursue repeated, enduring exchange relations with one another”. More concretely referring to business relations, Radaev (2004: 101) defines the business networks as “a stable and relatively closed set of interpersonal links between regular business partners”. Moreover, Sik (2010: 79) stresses the importance of network capital in post-socialist countries which he defines as “the network-sensitive” countries. This means that economic action is embedded in kinship and friendship relations, not typical business-like relations. This kind of business relations has a

low cost because close-knit relations bring desired predictability and trust in business operations creating cohesive group of business partners.

The other concept I use, the informal economy, is the part of economic sphere which escapes the state regulation. The informal economy and informal networks appeared as concepts which are opposite to the rise of organization, institutionalization and bureaucratization of economy. Beyond abstract theoretical models and strict legal rules and regulations, individuals in their everyday economic strategies find alternative ways to reach their goals and satisfy their needs. They create substitutes for formal mechanisms and institutions to overcome competitiveness and atomization of the market from one side and the state regulation and monitoring from other side (Hart, 1990).

The state plays a crucial role making attempts to extend its reach and centralize and regulate different economic practices. In this vein, Hart explains the informal economic activities: “as a heyday of state capitalism: the decentralized activities of ordinary people as opposed to the economic policies of governments” (Hart, 2001: 154). The informal economy comprises all income activities which are “unregulated by institutions of society, in a legal and social environment in which similar activities are regulated” (Castells and Portes, 1989:12). Consequently, the state determines the borders and character of the informal economy with its legal actions or non actions. The state regulates economic relations by passing laws and administrative rules, controlling its enforcement and sanctioning those who defy them (Cvejić, 2002:129). As Borocz (2000: 352) states: “Where there are formal rules, there will be informal ways of bending them: informality is omnipresent”.

In the following theoretical chapter, I will firstly depict the context of distrust in formal institutions and transitional anomie in post-socialist countries. Secondly, I will present the way how entrepreneurs cope with the uncertain economic context creating trust-based social networks and informal strategies. Finally I will evaluate some positive and negative aspects of creating social networks and informal economic strategies.

1.1. Entrepreneurship in post-socialist context

The growth of the entrepreneurial sector depends on the institutional environment (Estrin, Meyer and Bytchova, 2005: 3). Besides, the so-called socialist legacy shapes the post-socialist context in which entrepreneurship is developing. The fact that private enterprises and business had a strong negative image influences the development of entrepreneurship and the creation of entrepreneurial identities (Kaneff, 2002: 47).

In order to understand the role of entrepreneurs in the post-socialist societies, it is important to note Schumpeter's notion of the entrepreneurs as innovators. According to this author the role of entrepreneurs is crucial for the growth of the capitalist economy. He also introduced the notion of "creative destruction" of old economic systems and opening new opportunities (Schumpeter, 1975:83). The small business entrepreneur in the post socialism is perceived as a central figure in developing new economic system, someone who carries new working ethics and innovative strategies which spread to others. So entrepreneurship has an innovative aspect, but it is faced with a lot of obstacles.

In the Serbian context, economic embargo and hindered post-socialist transformation additionally created more uncertain environment. For some of the individuals this was opportunity for accumulation of capital; producers of jeans from Novi Pazar were one of these

groups. In order to organize their strategies they formed alternative mechanisms for creating trustworthy business relations.

1.1.1. Weak normative and institutional framework as a context for entrepreneurial action

In a situation of institutional vacuum, the state cannot guarantee stability and peaceful environment in a “low-trust society” (Radaev, 2004: 91). State institutions are too weak to implement regulative measures and sanctions against opportunism and informalization. In other words, weak formal institutions and regulations lead to lowering levels of interpersonal trust and social solidarity. In a context of distrust, uncertainty and instability, individuals are obliged to create interpersonal networks of support in order to reduce risks. Moreover, since new value normative patterns have not been formed, anomy, value normative chaos and incompatibility between action and the value of individuals have emerged. Aleksandar Štulhofer (2000) notes that post-socialistic societies have undergone the erosion of socio-cultural capital (deficit of trust, reciprocity and solidarity). He explains that process as “the mechanism of transitional anomie”, characterized by decline in trust in institutions and civic participation. Formal and informal control mechanisms fail to prevent involvement of individuals in the grey market and other infringements. In that situation, opportunistic economic practices are excused by survival necessity.

The uncertain environment may be extended, maintaining blurred boundaries between the formal and the informal, illegal, legal and legitimate, moral and amoral. This leads to the changed perception of formal and informal rules. As Sik (2010:84) nicely points out: ”law and regulations are not considered to be the abstract materialization of civic equality and liberty, but

rather materialized obstacles everybody should circumvent by all means if they want to reach their objectives". Radaev (2004: 104) also makes a distinction between "acting by law" and "acting by rules". Thus, the black economy is the "other" side of economic practices beyond regulation: actions which are illegal and illegitimate. Although formal institutions define what legal and socially desirable behavior is, the real situation in society is never so clear. At the same time, different social groups can have different normative and moral frameworks with different perceptions of legality and legitimacy. Those "different signals of norms" Webb, Tihanyi, Ireland and Sirmon (2009: 498) define "as an institutional incongruence, making difference between legality and legitimacy". Similarly, some authors state that Serbia is one of these cases where state regulation and tax morale is low. Lazić and Cvejić (2007) argue that there is "normative-value dissonance" in Serbian society, a situation in which different patterns of values coexist. In a situation of economic crisis and normative vacuum, formal institutions of control are weak, which leads to an increase of informal economic practices. In that context, informal activities can be defined "as the set of illegal yet legitimate (to some large groups) activities through which actors recognize and exploit opportunities (Webb, Tihanyi, Ireland and Sirmon, 2009:492).

1.1.2. Trust and cooperation in uncertain business context

Having seen that entrepreneurs in post-socialist countries cope with organizational, institutional and normative obstacles, the question is how do entrepreneurs practically create their entrepreneurial strategy in a situation of uncertain economic, political and cultural context. Since formal institutions and regulations are insufficient and ambiguous, they have to rely on informal networks and strategies in order to create a more trustworthy environment for their business. Therefore, disbelief in an impersonalized power of institution and rule of law can be

compensated using the personal networks of trust in kin and friends. Radaev (2004: 108) claims that individuals form business networks on a micro, interpersonal level as a mechanism for creating trust. We can say that the role of entrepreneurial informal activities and networks is twofold: they are used to circumvent existing formal institutions and to create substitutable mechanisms for regulations they miss (Estrin, Meyer and Bytchova, 2005: 29).

In like manner, Böröcz argues that informal connections between people are an important capital in Hungarian post-socialist society: “Former state-socialist managers’ informal social networks became such a crucial feature of the transformation that the structure of their informal ties has determined not only personnel selection (top managerial) but also the shape of economic organization” (Böröcz 2000: 351). Nevertheless, the existing reliance on informal networks is not a particularly post-socialist phenomenon, but it is one of the characteristics rooted in the socialist period, when personal connections were used for providing the desired rare goods in the economy of shortage. As Sik (2010: 86) argues, individuals during socialism developed relationships of barter to overcome difficulties in production and trade process. According to the path- dependency approach, formal and informal institutions from socialism still exist and they are recombined and reused in the new post-socialist context (Stark, 1996). Alena Ledeneva also explores the institution of ‘Blat’ or ‘economy of favors’ in Russia. She explains the phenomenon of a blat “as the use of personal networks for obtaining goods and services in short supply and for circumventing formal procedures” (Ledeneva, 2009:257, Ledeneva:1998). Furthermore, Lonkila (1997) shares Ledeneva’s opinion that despite changes in the economic system, “on the micro-level of Russian society many things have not changed”. Even though it is not the most important condition, personal contacts still play an important role in contemporary Russian society (Ledeneva, 1998: 200). Serbian post-socialist society has a similar characteristic.

In order to obtain a more predictable economic environment, businessmen create long-term networks. These personalized economic relations can offer more security, access to resources, ideas, valuable information and knowledge (Estrin, Meyer and Bychkova, 1995: 32). The repetitiveness of business relations gives the needed security and predictability of economic relations. These trustful and reputation-based relations between partners outweigh short-term profit and opportunism (Estrin, Meyer and Bychkova, 1995: 31). Particularly, in the informal market, entrepreneurs develop relations of cooperation substituting formal regulation. Due to close ties of cooperation, entrepreneurs create a collective identity; they establish their role within a group and networks with specific norms and values (Polletta & Jasper, 2001). This means that the informal activities are also regulated and embedded in “relationships of trust and cooperation” (Wallace, Latcheva: 2006). Furthermore, Reimer (2006: 27) claims that the informal economy can influence creating and fostering cohesion, reducing “the insecurity and risk”. Likewise, relationships in the informal sector are characterized by reciprocity and trustworthiness due to the illegality of their activities. Therefore we can say that social capital plays an important role in the informal market as well as in the regular sector. Previous researches in Eastern Europe showed that “43 percent of undeclared work is conducted for closer social relations, namely kin, friends, neighbors, and acquaintances, indicating that such work is more embedded in closer social networks of familial and community solidarity in East Central Europe than previously considered” (Williams, 2009:17). However, some surveys from Russia show that this does not have to be the case. The friendship relations can be an obstacle to the development business relations (Radaev, 2004: 96). Radaev (2004: 100) states that affect-based trust is replaced by reputation-based trust. In order to create long-term, reliable business relations, Russian businessmen develop many informal mechanisms to make their position

secure such as “non-contractual elements of business relationships”. In this context, social networks play important role in overcoming uncertainties.

1.2. Social networks between trust, solidarity, passivity and stagnation

Social networks are a very important base for creating economic actions and relations. According to the James E. Rauch and Gary G.Hamilton (2001:1) concepts of networks and markets are the connecting terms for interdisciplinary dialogue between sociologists and economists. The consequence of the interdisciplinary scientific approach is that it is noted that different social roles and identities effect the establishing of social and economic networks which are interconnected (McLean and Padgett, 2004: 194).

The constitution of networks in the economic sphere can have a positive impact on performance of economic organizations. First of all, the webs of formal and informal contacts can be valuable assets acquiring organizations with resources and information. (Smith-Doer and Powell, 2005: 379). For example, Larson (1992) argues that embedded ties among business partners can be channels for transmitting "thicker information". Furthermore, Romo and Schwartz (1995) state that networks between firms lead to better adaptation and coordination. Particularly, networks ties are critical avenues through which individuals advance their careers, getting a job, a raise or start-up capital; networks are access to information and resources, more rapid product development and enhanced innovation (Smith-Doer and Powell, 2005: 389). It is shown that firms which form networks have more stable positions on the market which enable them to persist in the severe competition. For instance, Uzzi (1996) uses data from his research of apparel manufactures in New York and claims that social connections and constitution of the dense networks help firms to act and have more opportunities on the market. Furthermore, dense

networks among economic organizations in one specific region and in one production sector can lead to the creation of industrial district which is characterized by “distinctive industrial atmosphere” and where “secrets of the industry are in the air” (Marshall, 1920). Certain regions, such as Silicon Valley, became famous by creating specific networks of innovation, ideas and collaboration which foster trust, cohesion and creativity. The participation in networks provides the members with trust and coordinated activities (Uzzi 1997). Similar characteristic of local entrepreneurial culture and incentives can be found in the Sandžak region, where the textile jeans industry is developed thanks to business and societal networks. Also investigating post-socialist context, Vedres and Stark (2010: 1150) stress the importance of process of “recombination of resources” where “the structural folds”, important nodes in the networks which transits information and knowledge inside the group. They argue “ideas are not free-floating outside the group “but they are situated and shared among network members” (Vedres and Stark, 2010:1151).

The formation of networks is especially important in cases when economic organizations have informal activities. In order to organize the informal activities enterprises need stable organization based on trust and cooperation. They need external support and it must be embedded in networks. Smith-Doerr and Powell (2005: 388) stress that many legal and illegal activities can be achieved using close-knit networks. The same opinion has Granovetter (1992: 63) claiming that “the extent of disorder resulting from force and fraud depends very much on how the network of social relations is structured”. He also rejects functionalist point of view that networks always create trustworthy environment, but rather they can also “facilitate malfeasance” and “members of groups engaged in malfeasance persuade one another that is

routine and acceptable; they often develop a language to describe it that has a neutralizing effect”(Granovetter, 1990: 100).

However, embeddedness in tight networks can have negative impacts on economic productiveness, competitiveness and further development. Firms which position themselves in the well-organized networks can be isolated from wider society. As a result of good position in networks, entrepreneurs can have passive and inflexible strategies and can be unavailable for new information and possibilities (Uzzi, 1996: 674). Furthermore, network formations can form a routine and closed interconnections not available for new-comers. “They would thus inhibit flexibility and the change of industrial structures“(Estrin, Meyer, Bytchkova, 2004: 32). In addition, dense networks can create an atmosphere of distrust, instability and inability to predict the market, which influences reduction of further investments. Finally, Portes and Sensenbrenner (1993) state that passivity and exclusion can happen to closely knit members of ethnic groups.

1.3. Informal economy: survival or growth?

The informal economy can have different functions and effects on economic and social structure. In addition to this, Portes cites classification of informal economy based on goals and he points out three functions informal economy can have:

- 1) Survival economy;
- 2) Dependent exploitation;
- 3) Growth.

Firstly, survival informal economy includes mostly natural production and sale in the market. It is mostly present in Third World countries, among the immigrants, as well as the

impoverished urban classes in countries of post-socialist transformation. Secondly, dependent exploitation represents flexibility in managing the business and cost reduction through informal labor. Thirdly, informality which enables growth provides accumulation of capital by increasing solidarity, through greater flexibility and lower labor and transaction costs (Portes, 1994: 429).

The informal sector is traditionally perceived as the source of low-skilled and underpaid employments for disadvantaged groups such as less educated, migrants or ethnic minorities (Portes, Castells and Benton, 1989). Jobs in the informal sector are usually described as “worse working conditions, no social insurance, and thus with a higher vulnerability to health and income shocks in the case of illness, injury or job loss” (Byung-Yeon, 2005: 183-184). Furthermore, informal economy is being related to underdeveloped economy and poverty, so it “prompted some analysts to conclude that irregular economic practices are the Third world import” (Portes, 1994: 434). However, some authors point out that it does not have to be like that. “Informal economy is not a euphemism for poverty. It is a specific form of relationships of production, while poverty is an attribute linked to the process of distribution” (Castells and Portes, 1989:12). The informal economy also exists in developed countries, but the participants have different motives for entering the informal market. In post-industrial countries, changes has occurred in the way needs are being fulfilled.

However, the informal sector doesn’t always have a survival function; instead it can be a productive and dynamic sector. It can be the place where entrepreneurial skills are practiced; informal businesses can be starting point for acquiring experience and capital for bigger and even formal job (Wallace and Latcheva, 2006). Likewise, the informal economy is widely seen as a “hidden enterprise culture” (De Soto, 1989). As the ILO (2002: 54) states, the informal economy acts as “an incubator for business potential and ... transitional base for accessibility and

graduation to the formal economy” and many informal workers show “real business acumen, creativity, dynamism and innovation.” This kind of a positive light on informal economy is shed from different theoretical perspectives. Firstly, neo-liberals believe that the informal economy is a spontaneous individual response to state regulation (De Soto, 1989). Secondly, social democratic thought also see the informal sphere in more positive vein, but from different perspective. According to this view the informal sector can be base for entrepreneurship, but only if these activities are phase in the moving from unregulated sector to legitimate economy (Williams and Round, 2007: 122). Especially, entrepreneurial activities are important source for economic growth in post-socialist countries (Williams and Round, 2007). For example, researches show that relations between the informal economy and small private enterprises have important implications in the economic growth of Russia (Byung-Yeon and Youngho, 2009).

Nevertheless, many surveys show that informal economy can have positive effects on development of a concrete region or even national economy. As an illustration, Vittorio Capecchi studied the Italian region of Emilia Romagna, which represents an ideal type of a region with flexible, specialized development and expansion of the tertiary sector. Another example is the case of Turkey, where informal activities have been large, with a good organization and flexibility which enable large scale businesses and dynamic growth (Zagršek, Jaklić and Hribernik, 2009). In these cases, specific historical, economic and cultural characteristics have led to segmented economic growth and dominance of positive features of informal economy (Capecchi, 1989).

Istvan Gabor felt that informal economy in Hungary, which emerged from conflict with the official socialist system, has a similar dynamic potential (Gabher, Stark, 1997: 8). But it turned out that grey economy in this post-socialist country does not have enough power to

accumulate capital, growth of capitalist production and its legitimacy. The economic elites were not recruited from the grey economy, as it was renewed from the earlier class of collective owners. The small businesses in Hungary are too fragmented and primarily engaged in tertiary industries (Gabher, Stark, 1997: 9). Concerning previous studies from different cultural contexts I will examine whether the informal economy in Sandžak region have potential to growth.

As an illustration of the importance of personal networks in the informal sector, Portes and Sensenbrenner (1993) describe collective identity with the presence of informal loan operations granting credit to entrepreneurs in a community of primarily illegal Dominican immigrants in New York City. Similarly, previous researches in Eastern Europe showed that “43 percent of undeclared work is conducted for closer social relations, namely kin, friends, neighbors, and acquaintances, indicating that such work is more embedded in closer social networks of familial and community solidarity in East Central Europe than previously considered” (Williams, 2009:17). Taking into account these studies, I can predict that embeddedness in social ties played important role in organizing informal activities in Sandžak, especially during the 1990s.

There are also different opinions regarding concrete consequences that the grey economy has on the functioning of society. The informal economy can have positive effects such as: reduction of economic inequality, poverty reduction, maintaining market relations as well as a better supply of services (Krstić, 1998). What is also very important is that informal sector provides employment. Thus, the unemployed as a social group become more and more involved in labor activities in the informal market. Due to an official recession in the economy, increasing poverty and unemployment, informal activities gain significant importance in household survival strategies (household coping) (Castells & Portes 1989). In brief, in a situation when the official

economy is not able to provide enough jobs, money, goods and services, the large part of population is engaged in informal activities.

On the other hand, the informal economy can be a sector which provides creative economic impulses and encourages entrepreneurship. In that manner, informality is not “negative, dark side” of the economy but it can be beneficial for overall economic system since most of the income earned in the informal market is spent in the official sector. The informal activities can stimulate competitiveness among informal sector as well as in the official economy. F. Schneider and D. H. Enste (2002) claim that informal economy is more effective because competition in the informal sector is more aggressive.

However, long-term negative effects of the gray economy are heavy and complicated and they can lead to economic recession, uncertain economic environment unfavorable for further investments. Unreported economic activities affect functioning of the entire system. All this creates an atmosphere of distrust, instability and inability to predict the market, which influences reduction of foreign investments. Stariene and Trimonis (2010:278) summarize negative consequences of shadow economy as: budget deficit, economic crisis, political instability, inefficient policy of country, corruption in country, cumulative structural economic deviation and moral degradation of society.

Danilo Mrkšić (1994:33-34) believes that informal economy in Serbia has two major consequences: reduction of budget revenues and burden of the formal economy as well as alleviation of social tensions. State loses part of budget revenues and formal economy has to deal with too heavy burden. Non-tax-paid economic activities contribute to reduction of overall social and health care benefits, which mostly affects marginal society circles (Krstić, 1998).

In conclusion, a simple dichotomy between formal and informal economic practices is not possible. It is very important is to take into account both the positive and negative aspects of informal work in order to estimate all sides of this complex phenomenon and explain all effects it can have on the economic growth.

CHAPTER 2: METHODOLOGY AND HYPOTHESIS

Activities and incomes from the informal sector are not part of the national statistics; they are hidden from tax and legal regulation, so social scientists also struggle to capture informal activities. Research of the hidden economy can be explained as “a scientific passion for knowing unknown” (Schneider, 2002: 4). Because it is difficult to estimate the size and characteristics of the informal economy on the macro level, I use qualitative methods in order to focus on individual actors and their interactions. As a result of using qualitative method, phenomena of the informal economy will be seen through micro lenses and shed a light on individual behavior.

It should be noted that it is hard to obtain accurate statistics about informal economic activities because the individuals engaged in these activities do not want to be identified. Additionally, one of the disadvantages of quantitative researches is that they cannot capture the dynamics of hidden economic activities: relations with other actors, their norms and values. With this in mind, I decided to use qualitative method for data collection about small informal businesses in the South West of Serbia. For this purpose, I used in-depth, face-to-face, semi-structured interviews. As a result, I believe that qualitative approach will shed a new light on numerical data about hidden economic practices in the South Western region of Serbia. Furthermore, the qualitative analysis will reveal individual motivation for engagement in the informal economy, structure of opportunities on the formal and informal markets, the process of creating socio-economic strategies and taking decisions to enter to informal market, and attitudes toward informal economy and state regulations. I believe that qualitative method is appropriate for: 1) understanding context in which individuals create their socio-economic strategies, how macro, socio-economic factors influence on creating micro environment; 2) examining

relationship between informal entrepreneurs and their interconnections and networks and 3) defining difference between actual behavior and norms and values.

Life-histories help me to understand how individuals use and create business opportunities in the time of crisis. I collected 12 different life-narratives as an insight into everyday life and decision-making. I conducted 8 interviews with owners and managers of textile companies in Novi Pazar. Additionally, I gained valuable information from interview with manager of association of textile producers ASSTEX. I also interviewed one professor from the Faculty of Economics of University of Novi Pazar. Finally, I interviewed two sociologists from Novi Pazar who gave me valuable data about the political and economic context of Novi Pazar.

Variables I used for the initial sampling are gender, educational levels and age groups. I interviewed 4 women and 8 men due to underrepresentation of women in the labor force in Sandžak, especially in the managerial positions. According to education, 7 respondents have university degrees, 5 of them have a secondary school degrees. Finally, six respondents are in the middle aged over 40 and 6 are younger than 40. Different generations of entrepreneurs can give their own experiences from different periods of post-socialist transformation in Serbia. In this way, I tend to capture different life- stories and all diversities of real life in Sandžak.

Due to the “sensitivity” of the topic, it was difficult to find appropriate respondents who would answer freely and honestly. This is why I relied on experienced researchers and sociologists from this area. Their advices and connections were very useful in finding respondents. The second source of information was my respondents who are part of the textile entrepreneurial network and association ASSTEX. In other words, I used a snowballing sampling in searching for interesting life-stories. With using all those networks, I think that this demanding task was feasible.

Since interview is consisted some of sensitive questions, a very important task was to assure the anonymity of the respondents. The relationship between an interviewer and interviewees must be relaxing and full of trust, because it can affect truthfulness of given responses and respondents' willingness to cooperate. It is also noteworthy to stress limitations with which researchers are faced when they investigate informal economic practices: it is unlikely to capture all entrepreneurial activities, especially activities connected with higher earnings and with illegal activities.

Hypothesis I want to test are:

1. In the period of economic crisis, the informal economic practices are embedded in kinship and friend support networks in order to minimize risks.
2. In the period of economic crisis, the size of the informal economy increases.

CHAPTER 3: ECONOMIC AND POLITICAL CONTEXT FOR DEVELOPMENT OF THE TEXTILE INDUSTRY IN SANDŽAK

In this section I will first present the most important economic, social and cultural characteristics of the Sandžak region. Furthermore, I will stress some of the factors I consider fundamental for development of the textile industry in Sandžak. Finally, I will depict economic and political context in two periods of blocked (during the 1990s) and unblocked (during the 2000s) which has affected the textile production in Sandžak.

3.1. Case: Sandžak

Sandžak, or the Raška region, is situated in the South- Western part of Serbia and is a particularly fruitful case for analyzing business networks and the informal economy because this region has had a specific economic and historical development. The economic and administrative center of the region is the city of Novi Pazar with 85.000 inhabitants. It is also a university center with the State University and International University of Islamic community.

It is one of the underdeveloped economic regions of Serbia with low economic productivity and a high unemployment rate, as well as high level of informal activities and a multi-ethnic and multi-religious structure. Firstly, the World Bank defines this region as an “area of actively impoverished population” (European Movement in Serbia, 2009:10). One of the latest estimations is that there are more unemployed than employed citizens in this region. As an illustration, the municipality Novi Pazar has an unemployment rate of 43.2% (European

Movement in Serbia, 2009:16).¹ Additionally, Sandžak has flourished and developed the informal sector. Especially, Novi Pazar, the biggest city in this area, has been well known as a center of unregistered factories for production of counterfeited jeans and clothes. According to official statistics more than 400 small textile manufactures operate in the region.² Textile industry employs between eight and ten thousand workers, which is 40% of total employed population in Novi Pazar. Other developed industrial sectors are food industry, retail and production of furniture. Secondly, Sandžak is on the Serbian border with Bosnia and Herzegovina, Montenegro and Kosovo. This geographical position is convenient for different kinds of illegal and informal productions and trades.

Thirdly, this is a multi-ethnic and multi-religious region inhabited by Bosniaks and Serbs. In 2002, Bosniaks are in majority with around 142.000 or 60% of overall population. The number of Serbs inhabiting this region is 93 thousand (around 40%). In the city of Novi Pazar, 78% of the population is Bosniaks who belong to Islamic confession (European Movement in Serbia, 2009: 29). The multi-ethnic and multi-religious structure of population influences the unstable political situation effected by divisions between Serbs and Bosniaks as well as among the Bosniak minority. Nevertheless, the main source of political instability is the conflict between the two Bosniak political parties: Sandžak Democratic Party (Sandžačka demokratska stranka -SDP) and Party of Democratic Action (Stranka demokratske akcije -SDA). This conflict has divided the Bosniak community on a political and religious basis. Moreover, there are different interpretations of the conflict. Some actors perceive official Belgrade as a political factor which aims are to destabilize and divide the Bosniak national minority. Other opinions

¹ In 2010, unemployment rate on the national level was 19,2%; for the population from 15 to 64 years old is -20,0% (RZZS <http://webrzs.stat.gov.rs/WebSite/Public/PageView.aspx?pKey=2>).

² Official site of the municipality of Novi Pazar: <http://www.novipazar.rs/privreda/kapaciteti.asp>

describe this conflict as a severe struggle for power and money masked by ideological and political debates and discourses (European Movement in Serbia, 2009: 9).

This unstable economic and political situation often influences changes in legal regulations. Additionally, political conflicts sometimes lead to the violence on the streets and in mosques. Consequently, the unstable political situation complicates economic development. At the same time, political situation gives possibilities for individuals to start business in the informal sector.

3.2.Factors which influence development of the textile industry in Sandžak

In this section I will stress some of the most important factors which affect development of the informal textile industry.

The newly established small private enterprises used resources and capital from the socialist period in the new circumstances of post-socialist transformation, both resources from socialist firms as well as capital created in small private firms opened during socialism as part of second economy (Gabor, 1997; Bodnar, 1998).³ During the post-socialist transformation, economic organizations change ownership and organization structure using “recombinant property” from previous socialist period (Stark, 1996: 993). In this redefinition of economic resources, human and network capital are specific assets which can be recombined (Bourdieu, 1990). Using different capitals, social players create strategies and institutions “not on the ruins but with the ruins of communism” (Stark, 1996: 995).

³ Yugoslavian economic system differed greatly from the Soviet model of centrally planned economy. One of the main differences is that Yugoslavia had more a liberal attitude toward the private sector. So small land property stayed in private ownership as well small artisan shops could exist. That led to more developed service sector. Besides, entrepreneurship could develop easier than in other socialistic countries, which created asset which can be used in the market economy (Bolčić, 2003).

During the 1970s and the 1980s, the Sandžak region was well known as a center of textile industry with large state companies which provided clothes for ex-Yugoslavian and European markets⁴. This tradition in production of textile products and intermediates such as yarns, materials and knitwear predates from 1956. During socialism three big socialist plants existed which employed more than 5.000 workers.⁵ The presence of the socialist firms shaped the development of the private sector and entrepreneurship. The fact that Novi Pazar had a developed socialist textile industry presented a base for the constitution of small private textile manufactures.

During socialism a great base for the development of the textile industry and skilled labor force was created which was used in the following period of post-socialist transformation. The machinery from collapsed socially owned textile industry did not seem to be a valuable asset for the newly founded private workshops, at least in the initial period. However, according to some of my respondents even in the constitutional phase, private entrepreneurs did not use technology from bankrupted socialist firms because it was outdated, but they definitely used infrastructure built during socialism in which small firms could not invest. For this reason, small private textile companies started to spring up in the same complex where socialist firms had been situated. The biggest private plants were established in or around socialist complexes and nowadays they constitute an industrial zone. The majority of people who worked in the textile plant “Raška”

⁴“Before the disintegration of former Yugoslavia, textile was one of the leading exports, with annual industry export revenue of about US\$ 1 billion. Over 70% of the export value was realized on the Western European market. The majority of these textile companies were located in the territory of Serbia“(Presnall, 2004: 9).

⁵ The largest was the textile plant “Raška” which had around 3.000 employees with separate sectors in Sjenica and Tutin. Furthermore, “Contemporary Confection Raška” had separate firms with four production lines where clothes such as coats, topcoats, leather and suits were produced. This firm employed around 2.000 workers. Finally, there was the knitwear industry with 500 employed.

found employment in private textile manufactures. Most importantly, private entrepreneurs used skilled and experienced labor force as a resource dating back to from socialism.

The strong tradition of entrepreneurship is characteristic of this region. The first private sewing manufacture was established in 1968, during socialism. My respondent, a sociologist from Novi Pazar, states that the entrepreneurial spirit is more in collision with the local mentality than the socialist mode of production.

We can say that there is continuity in the entrepreneurial mentality characteristic of this region or even some particular ‘business culture’. Probably the previous socialistic period was not compatible with that mentality. The period of the 1990s was more suitable to them (Interview 2).

Even though it is hard to make this generalization, it is obvious that the ‘fuzziness’ of the previous period from the 1990s was beneficial for textile entrepreneurs in Sandžak. The private sector in Novi Pazar started to emerge during the late socialism from 1985/6, particularly in production of jeans, when small enterprises started to emerge introducing new technology of jeans production. In the beginning, firms had a poor technology and machinery, but as years passed they followed the trends in technology and quality of production improved. They invested more and more in automatization of production. Especially, the period of prosperity (during the 1970s and 1980s) influenced the development of production when people went to Western European countries and bought original trademarks.

Furthermore, the geographical position near borders with Bosnia and Herzegovina, Montenegro and Kosovo influenced people’s incentives to trade using formal and informal channels. The dissolution of Yugoslavian state affected this region, specifically creating around

Sandžak three new borders within 20 years: firstly, with Bosnia and Herzegovina dividing Bosniaks in Serbia and in Bosnia (1992); then with Montenegro (2006) and finally between Serbia and Kosovo (2008). The border influences the trade rate, export and, consequently, the size of the informal economy.

3.3. Blocked post-socialist transformation during the 1990s

The blocked post-socialist transformation in Serbia was a specific context for creating entrepreneurial strategies. Serbian society has had a specific and slow path towards the formation of a new system which was burdened with pauperization, wars, isolation and the state regulated economy which inhibited privatization and liberalization. One characteristic of Serbian society during the 1990s was the increase of the informal economy.⁶ In particular, informal networks and informal activities presented the driving force for the Sandžak economy in one particular period of the 1990s.

On the one hand, in the 1990s, the economic embargo isolated the country and left the state and individuals without international control and legal regulation. For this reason, entrepreneurs in Novi Pazar could illegally produce counterfeited models of registered brand names. On the other, as a consequence of the great economic depression and dissolution of socialist production in Serbia, the demand for these kinds of clothes was bigger than the socialist sector could offer. Also, socialist firms in Serbia did not transform into private firms on time, which Novi Pazar did more successfully. Furthermore, because of the economic sanctions, it was hard to get original clothes and foreign brands. The producers from Sandžak satisfied the demand for this kind of low quality and unbranded but fashionable clothing in a situation of low

⁶ According to official statistics the share of the informal economy was: 31.6% in 1991, 41.7% in 1992, 54.4% in 1993, 44.7% in 1994, 40.8% in 1995 and 34.5% in 1997 (Krstić and Stojanović, 2001).

purchasing power and shortage of other goods. So, the private textile industry in Novi Pazar took advantage and made a boom on the informal market.

Secondly, the political context influenced the increase of informality in Serbia in general and particularly in the South Western part of the country. The institutional framework for controlling and sanctioning grey economic activities was too weak to prevent those activities. Thus, the state was unable to regulate and control the economic sphere. Besides, it is well known that the informal economy was able to alleviate of social tensions in the great economic depression during 1990s (Mrkšić, 1994: 33-34). Those kinds of activities were tolerated by the state officials acquiring goods, services and employment for a large number of people. During the 1990s, unemployment as well as the economic crisis and inflation have caused a great number of individuals have engaged in gray economy.

Thirdly, the former socialistic ideology which was based on equality also suffered a downfall in this period. Since new value normative patterns have had not been formed, anomy, value normative chaos and incompatibility between actions and the values of individuals emerged. The society was struck by vanishing solidarity and trust and many found a refuge from the economic crisis in the gray economy. I could notice this “normative dissonance” (Lazić and Cvejić, 2007) in some responses of my interviewees who were part of “the entrepreneurial generation of the 1990s”. For example, one of my respondents blamed the false “values and idols” actors had during the 1990s for engagement in the informal economy (Interview 1). The period of post-socialist transformation gave a lot of opportunities for making money in a short period without any effort or hard work. Normative dissonance led entrepreneurs to perceive production of counterfeited goods as a legitimate process.

In brief, manufactures for production of counterfeited jeans sprang up in the period of 1990s as some entrepreneurial people took advantage and used the chance created by an economic, political and cultural vacuum. They organized their business in a more ‘flexible’ manner finding a way to avoid the formal rules. They used the opportunity of stateless and lawless period and blurred state, political and metal boundaries to re-orient to the entrepreneurship.

3.4. Unblocked post-socialist transformation during the 2000s

After 2000, changes in the macro system had a great impact on the formation of the business strategies on the micro level. A stabilization of economic conditions and changes in social structure took place. The economic system experienced stabilization and privatization continued, which influenced the development of the private sector. Additionally, new business legislation introduced VAT and a new tax code. Also, the banking system started to operate normally, building trust and credibility of the financial and banking system among citizens and businesspeople. Furthermore, reestablishing foreign economic relations, trade and investments started (Presnell, 2004: 35, Babović, 2009). Inflation was stopped; economic exchange with other countries was established. These macroeconomic changes led to the improvement of material standards and the increase of income for the majority of the population. The changed macroeconomic and political situation should have had a stimulative effect on the development of the private sector, simultaneously suppressing the informal sector.

In relation to the development of the textile industry, Serbia is estimated as “one of the last continental European markets for high skill low cost labor-intensive production” (Presnell, 2004: 5). Today Serbia is a last “destination” for textile production in Europe taking over textile business from other European countries such as Hungary, the Czech Republic, Slovakia and

Poland. One of my respondents believed that the same global trend will eventually affect the textile industry in Serbia because the Serbian market is not competitive with Asian regions in terms of labor costs.

When the Serbian economy started to open to the world, the jeans from Novi Pazar got various competitors: from one side established brands with higher quality and prices and from the other side Chinese goods with low quality and prices. Furthermore, entrepreneurs from the Sandžak region had to conform to the changing institutional and economic context in the first decade of the 21st century. This means that they were obliged to shift from formal to informal economic activities. From the beginning, the mentioned changes had a negative impact on the textile industry in Novi Pazar because economic and political changes led to the accelerating decline of jeans manufacturing. This trend has continued especially since 2008 and global economic crisis when total collapse and downfall started more rapidly.

During the unblocked post-socialist transformation after the year 2000, the minority of the small, informal business manufactures decided to adapt to the changing economic and political environment and tried to base their business activities on other principles. The main principle is transition from the informal to the formal economy. This includes the process of formalization of economic practices and personal networks. Entrepreneurs share the belief and official statement that they cannot develop as informal and family firms if they want to adapt to the global market.

3.4.1. *Changes in business strategies*

During the 2000 textile firms have two main strategies: creating their own brands or producing for other firms. Since entrepreneurs could not copy foreign brands, some of them

started to create their own labels. They want to develop and make their brand more recognized. One of the experts from Novi Pazar claimed that the strategy to create one's own brand is a good tactic, but it is not easy to keep their position even on the local market which is overloaded with foreign products (Interview 6). Furthermore, the barriers to increasing exports are high due to transaction and distribution costs (Presnall, 2004:42). Despite their innovation and ambition, it is very hard for local firms to create recognizable and popular brands in foreign markets.

The second strategy is to produce jeans for foreign companies. The benefit of working for other brands is implementing the know-how. Still this strategy is atypical and less frequent. Companies which opt for this strategy have good working conditions, technology and skilled workers so they can work for other brands and satisfy their needs. So, we can say that these types of firms are "privileged" and have a more secure position on the market. The representative of one of these firms gave their reason for using this strategy: "This is not a business where you have to search your place on the market, to invest in promotion; we just produce for the established European and world brand" (Interview 8). Furthermore, textile entrepreneurs had to modernize their production and mechanization in order to be more compatible with European markets. Moreover, they professionalize their working organizations. They tend to have a completely professionalized structure with different sectors where they employ designers, modelists, graphic designers and marketing experts.

In addition, companies have developed advanced marketing strategies. Now they are fully aware of the role of the marketing in modern business strategies and decision-making. Furthermore, private enterprises became export-oriented after the year 2000. They perceive the economic transformation and connection with other markets as a chance to expand their business to the world market. Companies export together in Poland, Greece, Germany, Slovenia, Bosnia

and Herzegovina, and Montenegro⁷. Some companies export up to 80% of their products. However, most of them are oriented to the Serbian and the ex-Yugoslavian market.

Furthermore, I can classify all interviews according to their impression and estimation of the development of the textile sector into two groups, with different narratives and totally contradictory statements, claims and predictions toward the development of textile industry in Sandžak. The first one is completely positive, stressing big improvement in all sectors of business, modernization and growth. I have already noted in this chapter the most important arguments. However, the second group of informants stressed the passivity, underdevelopment, lack of knowledge and innovation in the textile sector. The general view of the second group is that entrepreneurs are too static, not innovative, unused to market relations, and they do not have state-of-the-art-technology. In order to develop and learn more, they have to connect with Western firms. Moreover, one of the main ongoing problems is weak management. Further professionalization and knowledge improvement are necessary for small companies in order to grow. Definitely, they need know-how, skills and knowledge in order to persist on local and regional markets, and to expand to global markets.

When I analyze how these confronting statements reveal the performance and future of the textile industry, I can generalize that they depend on the success and the size of the firms. The people from bigger, more successful and more connected firms gave more optimistic overall opinion toward their businesses. Also, members of the younger generation have more positive overall opinion than older ones. Finally, networking influences their opinions too: densely connected firms estimate their performance in a more positive vein. Perhaps this is connected to

⁷“ The share of textile and garment exports in the total exports of industry dropped from 14.1% in 2001 to 10.4% in 2002 and as little as 9.1% in 2003. Their share in the total imports of industry and mining contracted from 10.1% in 2001 to 9.4% in 2002 and 8.8% in 2003“ (Presnall, 2004: 11).

their self-perception and attitude toward my research. As one respondents said, ‘optimists’ are not honest and realistic, but use this opportunity as marketing and self-promotion. Furthermore, the “older generation” of the textile producers, mostly directors from socialist period, constitutes the other group. Beside, in this group I can classify “researchers”, “experts” who are not insiders in the business.

In the following chapters I will present networks and the informal economy as important elements of business strategies of textile producers in Sandžak. Moreover, I will present how networking and informality have changed in the context of post-socialist transformation.

CHAPTER 4: FROM COLLABORATIVE TO PROFESSIONALIZED NETWORKS

4.1. Strong- tie networks as a source of trust during the 1990s

Formed social networks were a significant asset which enabled the organization and functioning of the textile industry in Sandžak. Clothes manufacturers and dyers were interconnected; they were highly specialized for producing specific products or parts of products. Since small, informal companies were dependent on each other, they created stable trustworthy relations. This made the embeddedness in other social ties crucial. Two types of bonds were important for starting-up businesses and persisted on the market: one was family, friendship and neighborhood ties in Novi Pazar and other was connections with Turkey.

Almost all informal textile firms were organized along family, kinship and friendship ties. In this way entrepreneurs created human and network capital using informal relations with family and friends. They also created “neighborhood” networks⁸ and contacts for establishing business relations. So neighborhood and family relations and “belongingness” to all these non-economic networks were important for the development of business relations in the uncertain environment. In order to create a trustworthy environment they relied on the members with whom they share more identities and intersect in more social groups or networks. That is close to Vedres and Stark’s notion of the “intercohesion” which leads to mutual effects of “familiarity and diversity” of formed networks. (Verdres and Stark, 2010:1151). In this way, economic

⁸ Saskia Sassen (1988–89: 11) states that similar “neighborhood sub-economy” is developed in immigrant communities in New York.

relations are embedded in more stable social relationships which provide predictability and trust in economic relations.⁹

Social ties were crucial for organizing informal activities because entrepreneurs needed regulation and trust. As Portes and Haller state: “the more it approaches the model of the “true market” the more it is dependent on social ties for its effective functioning” (Portes and Haller, 2005: 407). One of the reasons why entrepreneurs established businesses around family ties is the riskiness of the business. The fact they performed on the informal market led to risks, so they had to rely on well-known, reliable partners and workers.¹⁰ Secondly, the lack of resources could be a factor for creation of networks around nuclear and extended family members. In that way, actors used strategies to re-allocate disposable resources and to overcome the main risks in post-socialist societies. In the situation of mass unemployment and the collapse of the socialist sector, informal activities in jeans manufacturing were the only source of employment and income for all family members.

Additionally, this region has developed economic, political, cultural and family relations with Turkey, so they frequently smuggled clothes from there. Using connections and capital from those activities, individuals started to establish small manufactures. Firstly, they had insiders, people from Turkey who knew how local markets functioned. One of my respondents told me:

⁹ Other studies stress the importance of kinship and family ties in finding new workers (Lazerson, 1988).

¹⁰ Bondar (1998: 510) also states that informal networks have “among other functions, a very efficient risk-reducing effect”.

They use those networks, because people there knew somebody who sells goods with affordable price... So they have 'helpers' who were bridge between buyers and sellers... They had logistics and organizational help back there in Turkey. They needed somebody who knows the market very well (Interview 12).

Created network capital was essential for individuals to enter the world of producing and trading fake jeans. Therefore, in the period of the 1990s when informal networks were embedded in other social ties, they facilitated organization of informal activities being ties alternative sources of trust, resources and moral justification.

4.2. Creating professional association: changes in networking during the 2000s

In the period of unblocked post-socialist transformation, the macro changes affected the organizational structures of textile manufactures. As some models for creating business strategies and social mobility were closed, some other channels and chances emerged. Informality was not an available option for creating business strategies, so firms moved to the formal sector. Nevertheless, the formal status of the firms opened other opportunities and mechanisms for support, regulation and predictability of business. First of all, I mean on the institutionalized ways to give financial, organizational and informational support. For this reason, textile firms used opportunities to establish an association of the textile producers -ASSTEX. This new actor is crucial because it enables better cooperation and communication between producers. Moreover, association can be mediator between local textile producers and the Government, investors and EU administration.

Networking and cooperation on the organizational level is a strategy which is relatively new to entrepreneurs. As I presented in the previous chapter, interpersonal networks existed

before and played a crucial role in the 1990s. However, entrepreneurs recognized the need to institutionalize contacts between them. In this way, personal networks are now more institutionalized and structured. Entrepreneurs realized that ad-hoc personal contacts are not sufficient for building economic relations, so they formed an association believing that it can give new quality and dimension to their business and cooperation.

In relation to the formalization of networks, the establishment of the association of textile producers ASSTEX is extremely important. It was established in 2009; after that they also established cluster ASSTEX as a part of the same organization one and a half years ago. Nowadays the association consists of 135 registered firms. Entrepreneurs share a strong belief that the establishment of this association will strengthen the position of the private textile sector in a way that it can represent the interests of the whole sector to local and national political representatives and institutions. They also believe the association may change the negative attitude toward entrepreneurship in society. One of the main reasons textile producers created ASSTEX is to apply for funds at the state administration and EU. The association organizes and coordinates standardization and development of ISO standards which are important for export. Furthermore, the establishment of the association is necessary for small firms in order to survive in the situation of severe competition. This is the solution for reducing risk and building long-term, institutionalized business relations. They use it to solve important problems which one firm cannot resolve alone, such as ecological problems, negotiations with the government and organizing export activities. They strongly believe they will have a synergetic effect if they are united. They claimed that in this way, they will foster their position on the Serbian market as well as on the international level.

The networking on the institutional level is a result of the existential need in the last few years. It is an attempt to save production and the market. One of the members of the association expressed his opinion as follows:

It should have been established a long time ago when the textile sector was extremely successful and strong. Nowadays, this establishment is an attempt and experiment of survival and salvation.... Naturally, it is a positive move. Nobody is interested in cooperating with single small producers, but if we have the association behind us with a lot of members and big capacities, then we are more attractive to Western investors (Interview 5).

This statement shows that a crucial motive for establishing associations was to persist on the competitive Serbian and international markets.

Inside the association, entrepreneurs share information about legal regulations and export procedures. The networking is important because it is a source of support in a new, uncertain situation, especially exporting to countries where they were not present before. According to my respondents, it is easier for them to call somebody from some other firm than to lose precious time to figure out on their own what kind of licences and certificates they need.

In brief, networks are used as channels of transmitting information between firms. The organizational structure facilitates and shortens the time of spreading information. Lack of resources and knowledge affect creating dense cooperation among firms. As a result of this cooperation, they believe that network and joint activities will give them a competitive advantage on the international markets. Similarly, Uzzi found in his study of the apparel industry in New

York that networks have three crucial functions: “trust, fine grained information transfer, and joint problem-solving arrangements“ (Uzzi, 1996: 677).

Dense cooperation within the association has led to increase of trust among partners, so the question of competition is another important point. When members of the association started to constitute their firms they perceived each other as competition. Nowadays, the entrepreneurs share the awareness that they have to cooperate in order to persist in the market and expand to the foreign market. Even though they are independent enterprises with separate structures and strategies, they share responsibilities, shifting production operations such as sewing, dyeing, washing and finishing works. They noted that they have perfect communication and cooperation among members as a result of the association’s activities. For example, one respondent stated: “We are totally united and we do not have particular interests. We overcome egoistic attitudes and competition. Everybody contributes as much they can” (Interview 7). But one young manager pointed out that cooperation is not always perfect and that everybody still keeps some information from the others:

There are questions you should not ask anybody. This is the informal rule.

...Those questions are related to the process of production: models, suppliers, some trick (Interview 4).

This statement shows that there is some benign competition and that relations between firms are not excellent. Others also noted that they build more business than friendly relations; they have “cold”, impersonal relations. Members of association develop complex relations of collaboration and competition. Taking into account different opinions, the dilemma is if that kind of created network is the basis for sharing and developing knowledge and if the is formed association is an

example of a “network as locus of innovation” (Smith-Doer and Powell, 2005: 386). From the presented statements, it is obvious that entrepreneurs share practical information rather than knowledge.

Beyond reliable, long-term business relationships, interviewees claimed that it is hard to establish trustworthy relations among partners. For this reason, they rely on the long-term partners who are trustworthy and reputation-based. If they have to cooperate with unreliable partners, they have to check on them using personal contacts.

We still apply some ‘primitive, archaic’ methods which should be overcome as a part of the past, such as checking partners through acquaintances and reliable partners. Also informal recommendations are still important – reputation-based relations (Interview 9).

In general, all respondents estimate that personal networks are valuable, necessary and irreplaceable. Firstly, personal connections and recommendations through personal ties play a more important role in hiring than education and qualification. Especially on production lines and in the lower positions in the firm, entrepreneurs still employ many people who have family or friendship relations with the owners or other firms. Nevertheless, in the managerial positions, other characteristics are more relevant, such as professionalism, knowledge and practical skills. So they ask for a different kind of recommendation.

Additionally, the connection with members of political structures are crucial for getting any kind of official proof or information necessary for business organization. As one respondent stated:

Politics is in all pores of society and life in Novi Pazar. You have to have connections with somebody from one of the two main political parties or with both. You cannot find any job in the private or the state sector if you do not have personal relations with members of the political parties (Interview 2).

For this reason, owners of private textile companies perceive the political conflict as a crucial obstacle for economic growth. First of all, they believe that conflict among Bosniak political parties is extremely strong having negative repercussions on the business sector. Businesspeople do not perceive the interethnic conflicts between Bosniaks and Serbs as an obstacle for economic cooperation. However, it should be noted that the textile denim industry is perceived as a market niche where most of the actors are Bosniaks. The tension and national competition between Serbs and Bosniaks exist in the state institutions. In particular, respondents stated that even though Serbs are in minority in this region they are favored in the police and the justice (Interview 9).

Most of the respondents do not favor any political party expressing general negative opinion toward politics and politicians no matter they are in local or the state government. Entrepreneurs are focused on developing their businesses, but they are aware that political contacts are necessary for success in business. Because of that they have a pragmatic approach toward politics, building diplomatic strategy and good relations with both relevant political parties in Novi Pazar. So entrepreneurs had to form strategies similar to “political mix” (Vedres and Stark, 2010:1169). This means that managers from the association have contacts with members from both political parties because that is the only way to succeed. One respondent explained how they solve the institutional problems and obstacles using personal contacts and networks:

We are specific because we have organized teams for every sector or type of problems... We have teams for ecological issues, for education, for organizing fairs... we divide responsibilities among us, and that is how we solve our problems. Of course, in the 'division of labor' personal contacts are very important, without them it would not do anything (Interview 7).

In the changing context of the 2000s, the network of the textile entrepreneurs has other form and functions. I would call this a transition to "collaborative" to "professional" networks. Formal status and hierarchy give the network a new quality in the form of professional association. Additionally, the association is a medium between individual producers and local, national and international institutions. The association became a partner with formal institutions, cooperating with them and trying to take advantage of cooperation. United entrepreneurs decided to participate in an existing institutional system not against it. It is not the result of temporal, coping strategies but a way to create more sustainable strategy. Nevertheless, contacts are still significant factors in creating business partnerships. Furthermore, dense cooperation between entrepreneurs created solidarity between them which had not existed before. Solidarity between them can cause the decline of an opportunistic behavior and malfeasance. Entrepreneurs have a sense that they perform together on the market and that is why they have a negative attitude toward informality believing that the informal economy can harm the market and create disloyal competition.

CHAPTER 5: FROM JUSTIFYING TO NEGATING INFORMAL ACTIVITIES

5.1. Informal and illegal activities as a part of business strategy during the 1990s

During the blocked post-socialist transformation, the informal sector was the central arena on which textile entrepreneurs performed. So, despite the great economic depression and political crisis, the period of the first half of the 1990s was considered as a “Golden age” of Novi Pazar. The majority of the textile informal workshops were created in that period and for that reason Novi Pazar was called the “valley of jeans”. In that period 24 million meters of denim raw material was legally or illegally imported; it is estimated that private enterprises produced 20 million pieces of counterfeited denim trousers per year, producing 36 pieces a day per every worker. In the same period the monthly turnover on Novi Pazar’s free market was more than 10 million Euros (European Movement in Serbia, 2009:14). During the 1990s, there was a jeans manufacturer in every street in Novi Pazar. According to some data, around 500 small manufactures existed, which employed from 10 to 200 workers. There were 300 registered manufactures of jeans clothes. Moreover, in the same period production of other clothes started to grow especially sportswear.

Textile firms established during the 1990s were active exclusively on the informal market, breaking the law and international restrictions of economic activities with other countries. Entrepreneurs had diverse informal activities which can be classified as illegal (such as producing counterfeited denim jeans) and unreported and unrecorded informal activities avoiding state regulations such as tax evasion and unregistered work (Feige, 1990: 1000-1; Portes and Haller, 2005: 405). Firstly, they produced and sold the denim jeans and other clothes

without a license. Most of them were connected and specialized for production of a certain product of jeans trousers. One of my respondents described the process of production in this period. Firstly, they needed a photograph of the original. Another option was to buy abroad the original pair of the famous brand jeans. Then they cut the pair of jeans in pieces and tried to figure out how every part of the jeans was made and connected. Every worker had a task to make the piece of the jeans such as a pocket or a suture as similar as possible to the original. They even organized competitions among workers in producing the best copy. Respondents did not conceal that they had informal activities, justifying them as products of specific circumstances.

In one period, during the economic sanctions, we could simply do whatever we wanted, so we produced even Levi's then. We produced all brand marks which were normally branded worldwide, but here we could produce them without any control (Interview 12).

Many owners and managers I talked to, in the same way as real sales-persons, praised their product as a high-quality good. There is a legend that these jeans were of such good quality that experts and brand's representatives could not identify the difference between the original and fakes. But one experienced and more realistic interviewee stated: "Jeans from Novi Pazar was known as a cheap product, the only ones available in that period, but quality was medium. Even today we produce the same quality goods at a minimal price for this type of product" (Interview 8). This statement shows that success of textile manufactures was not due to quality but because they were cheap products which were perfect for people with lower standards of living and purchasing power. This attracted many retailers from neighboring cities and countries to purchase and resell these jeans. Another respondent explained the importance of Novi Pazar's open market in this initial period.

In that time, the famous open market in Novi Pazar was full of retailers from all parts of Serbia, Montenegro, and Croatia as well. They could not find anything closer, better and cheaper than our products.... An interesting detail is that they usually traded during the night or in the morning from 2 or 3 am to 10 am (Interview 9).

As this statement shows, Novi Pazar became a popular trading place, especially thanks to production of counterfeited jeans. Ironically, the time of economic sanction and crisis was a period of growth and prosperity for textile entrepreneurs from this region.

Secondly, during the economic embargo entrepreneurs found informal ways and channels to smuggle raw materials and machinery from other countries, mostly from Turkey and Italy. But not just that, they also had their informal mechanisms to export their products to all over the Europe. When I asked them for the ways to import raw material and new technology, I always got ambiguous responses. They usually just said: “We managed to find our ways” or “You have to know the right people”. The other interviewees were a bit more precise:

Our supply of raw materials such as jeans and buttons for instance functioned impeccably and without any problems even during the sanctions. It was one thing what was official and ordered by UN, but the other thing happened in practice.... We managed to find our ways to get our materials and goods. And naturally, during the entire period of economic sanctions, we exported our goods, mostly to the bordering countries and from there further to other European countries. The established way was through Montenegro, Bosnia and Herzegovina, and Belgrade to wider and long-distance markets (Interview 9).

The other respondent stressed the contacts and networks with people from the state structure (Police, administration, customs) as crucial factors for a running business.

When we look back, those years (the 1990s) were the best for our business. The ‘black market’ flourished; we had a possibility to export and import everything without many questions. The only condition for business was to have somebody ‘at the top’ and everything would be solved. So how did they solve.... There was specter of ways and all tow trucks passed the customs without any problems (Interview 12).

In the last two quotes, respondents explain roughly the organization of illicit activities during the economic embargo showing interconnections and interplays between the state officials and smugglers. A similar analysis is given by Cosmin Radu (2009), when he explained how “contrabandist state” as “a predatory capitalist formation” is created on the petroleum market on the border between Serbia and Romania.

Entrepreneurs were aware that they exposed themselves to a risk in the undeveloped and poorly regulated market. As one respondent stressed:

It was very hard to develop your private business and to invest in production. To be honest and realistic, they had to have courage for that. Because nobody knew what can happen the next day or year (Interview 1).

In this uncertain context, social networks based on strong ties were safety nets and sources of information and connections for starting business and making money. Their businesses were embedded in kinship, friendship and acquaintance networks but the weakness of the network is

that it was not embedded in the institutional system. Those networks created informal and alternative institutions of trust and support.

I think I could not break some barriers between me and interviewees. Because of that I could not find out more details about their informal and illegal channels for trade and production. One reason is lack of time to build a more trusting relationship with my respondents so they did not feel comfortable in telling “secrets of their success”. They claimed that nobody would reveal their “business strategies”. Secondly, as I predicted and mentioned in the methodological section, informality is a hidden and risky phenomenon which escapes legal regulation, so it is difficult to grasp and analyze. I believe this is important obstacle for finding out “the complete truth”.

Moreover, textile entrepreneurs evaded taxes and other state regulations. In this way, they took advantage of numerous informal practices to accumulate a great amount of money. Using informal economic strategies, entrepreneurs saved on the costs of labor and on taxes. Workers were unregistered so they did not have social security and insurance protection. Hence, they were hired and paid off the books through the networks of strong ties. Even though workers were not registered, they were well-paid for that time of economic crisis, when most of the population was impoverished and unemployed. Finally, they did not obey health and safety regulations and quality control of products. Entrepreneurs accumulated significant capital, but informal strategies had devastating effects in the long run, especially on prices and competitiveness.

Most of entrepreneurs were not focused on growth and developing stable, long-term economic strategies. They did not invest in production and knowledge but they wanted to get rich overnight. Instead of expanding their businesses, most entrepreneurs invested in real estate, buying new cars and other status symbols rather than in production. For this reason, most firms

disappeared in a short period of a time, going bankrupt. About some of those that I tried to contact, I was told they went abroad maybe even hiding from police because they had other illegal activities not related to the textile industry. Talking with many people in the town about “controversial textile entrepreneurs”, I had an impression that it is still a taboo topic wrapped in many mysteries and stories not based on facts. Although this type of business is in decline and is vanishing, they did not want to talk about it. In general, the perception of the owners of the jeans companies is similar to that of new Russians (Humphrey, 2002), since they have the reputation of being the nouveau-riche.

An important question is: What were the benefits of the informal jeans economy in Novi Pazar during the 1990s? The first thing is economic capital accumulated through informal economic activities which the minority used for the improvement of production and the development of business. Secondly, they accumulated knowledge, experience and know-how from a simple copying of established brands, so they could use this knowledge for creating their own brands. Thirdly, organization of production in a specific context of isolated and uncertain economic and political environment meant that entrepreneurs had to adopt flexible production strategies. For this reason, these small manufactures acquired technology and knowledge necessary for all processes of production. The analysis of the period of the 2000s will give answers to the question whether entrepreneurs successfully use accumulated resource in the changing context.

5. 2. On the margin: Changes in informality during the 2000s

The changed economic and political atmosphere have led to stricter state regulation and control which has led to the decline of illegal and informal activities. In this situation, most

entrepreneurs could not accommodate to the new rules of the game. It was shown that most firms were fragile, without real business strategies and ambition to develop their businesses in the formal sphere. Their business logic was totally different and useless in the new context. Oversized capacities and implementing new technologies, without a clear strategy and organization, influenced the rapid downturn in production. In the 2000s, entrepreneurs work at only 5% of their capacities from the “Golden Age” of the 1990s (European Movement in Serbia, 2009).

Besides, the attitude toward the informal economy had changed from the 1990s. Some owners and managers told me that they share the notion that the informal economy should be kept to a minimum and on the margin (Interview 3). They also share the opinion that the high level of informal activities can have a devastating effect on the economy in general and that can be an obstacle for further economic growth. Almost all respondents denied that they have informal activities. We can conclude that a certain shift in values happened, but that change is only on the normative level. The values toward the informal economy changed, so it is not positive practice but a hidden and forbidden phenomenon. Entrepreneurs are aware that the time when they could have a high level of informal activity has passed and that they have to adapt to the new situation. Nevertheless, every time when they find a way, they still avoid the formal rules and regulations. They are aware that regulation is stricter now, so they should not take a risk working on the grey market. They believe the grey economy is a risk, so they do not want to get involved; it could harm the existence of all business and the life of workers and their families, so they have a certain responsibility toward them. Likewise, they think that they can hide informal activities only if they are a small manufacturer with three or four workers and with small scale production, but if they want to develop they cannot stay in the informal sphere.

Furthermore, during the 2000s, workers have changed their opinion toward registration of their employment. In the previous period, workers had a survival strategy so they wanted to have higher salaries and they thought they would have it if entrepreneurs did not pay their benefits but gave them cash. Nowadays, they think more about the future and create long-term economic strategies, so they believe health insurance and other social benefits are important. So, there is an agreement and mutual interest of workers and directors to register all workers. Neither side wants to take risk. Contrary to the previous strong negative statements toward informality and unregistered work, I found out that many workers are still working as unregistered employees in textile factories. This kind of soft but frequent information I got, is evidence that those firms are not working on the formal sector solely, but still use available mechanism for unregistered work playing on the informal and formal field. So, the smokescreen for informal activities still exists and changing normative attitude is just “front stage” for hiding background activities.

Furthermore, the line between formal and informal is still unclear. As an illustration, some managers claimed that even in the present situation, the state with its legal frameworks still allows some kind of informalities in the economy or they find a way to avoid the rules. Some estimates show that more than 2,000 small unregistered clothes manufactures exist. They are usually organized as family or home businesses (Presnall, 2004: 9). This number can only be underestimated, suspecting that in reality many more such small informal enterprises must exist.

Some respondents also claim that the state with their nontransparent and constantly changing rules and regulations, still makes space for some unregistered activities. My impression is that they are sometimes not aware that some activities are part of “the shadow economy” such as not fully registered income. But they perceive it as at least legitimate and justify those activities, as one interviewee stated:

But everybody does that, and the state permits that because they clarify the minimum wage (20,000 dinars, 200 Euros), so we can register workers only on that amount but not to complete amount (Interview 3).

Some respondents believe that the principle of punishment and reducing risk of punishment is the most important factor in the changing entrepreneurial behavior.

They (entrepreneurs) still do not have awareness that some activities are harmful; there is no solidarity and consciousness about public interest. The same thing is for every ecological problem such as polluting the river. There is no awareness that we should buy and use filters because of harmful effect on environment, that it is beneficial for all citizens, but we should do that because the state gave us a deadline to change our production and because we will be punished if we do not do that (Interview 3).

Definitely the changes on the macro level influence the decline of the informal economic practices in Sandžak. Not only is the size of informal activities decreasing, but the role of informality in economic strategies is changing. Informality is not structural, systemic and "predatory" (Cvejić, 2002), but it has peripheral character. Entrepreneurs are aware that they cannot base their business strategies only on the informal sectors, but they can use it as an auxiliary mechanism creating diversified strategies on the margin and border between the formal and informal sectors.

CONCLUSION

In this thesis, I applied the concept of embeddedness in order to explore entrepreneurial behavior in an uncertain context of post-socialist transformation in Serbia. Particularly, I analyzed the role of the social networks and informal activities in the textile industry in Sandžak. I compared their role in two period of post-socialist transformation in Serbia.

In the first period of blocked post-socialist transformation, the private sector in Novi Pazar spontaneously developed in order to survive in the times of “conflicts, transition and crisis” (European Movement in Serbia, 2009: 7). This means that the private sector in Novi Pazar developed without institutional support but despite all obstacles and uncertain context. It was a result of private and individual initiatives, so we can say that human capital and individual incentives were the most valuable asset of the region, where social networks played crucial role. Entrepreneurs preformed on the informal market and most of the interviewees considered informal activities as a completely legitimate way to survive in uncertain social conditions and economic impoverishment.

After the year 2000, the global and national context influenced the collapse of the informal economy in Sandžak. In this period, “easy” informal market disappeared so entrepreneurs had to adapt to severe competition on the “harder” market. I showed that entrepreneurs who stayed in the business after 2000 are the ones with motivation, innovation and entrepreneurial incentives. They have a vision, strategy and innovation to create their own brands, develop production and expand on the international markets. Not just that but they have better safety nets of support, since they are better situated in the networks. Some firms are still trying to adapt to new economic condition formulating new strategies: modernizing productions

and organizations, creating their own brand marks, working for other brands, creating marketing strategies, expanding on new markets, professionalization and creating association of textile manufactures. Entrepreneurs are aware that they have to build new strategies on the new principles and foundations, but also they have perceived their previous business culture and “customs” based on private networks and informality.

The hypothesis that informal economy are increasing in the period economic and political crisis was found to be true in the case of Serbia and the Sandžak region. This is in opposition to Capecchi’s claim that the formal and informal economy are interconnected and that “both are simultaneously ‘poorer’ and ‘richer’” (Capecchi, 1989: 212). Economic and political stabilization of Serbian society consequently led to a decline in economic practices, so informal activities are not the source of survival or accumulation of capital. As a consequence of fostering institutions, kinship and friendship support networks lose their importance.

In brief, in the period of the fin de siècle and complex post-socialist transformation, the textile sector moved from the informal to the formal economic sphere, from family business to professional organization, from copying to originality, from national market to export strategies, from legitimization of informal activities to their negation on the normative level, from informal personal networks to building organization and organizational networks, a from negative attitude toward the state to the cooperation with state officials. But the fact is that entrepreneurial strategies are still on the margin. They have the hybrid design of “traditional” and “modern, rational” economic institutions. The reason for the existence of heterogeneous economic forms is not unfinished transformation, but the fact that economic practices are always on the margin with other social functions, ideas and rules, combining economic principles of productivity and rationality with other principles.

The research could not reveal all aspect of the informality and networking in a short period of time. Long-term research should be conducted in order to uncover the complex relationships between the formal and informal sectors. Secondly, a better comparison between successful and unsuccessful entrepreneurs should be made; that analysis would highlight the factors which are necessary for entrepreneurial advance and what are the main obstacles in that process. Additionally, a comparison to other cases from other regions or industrial sectors could give a new aspect to the analysis of the Sandžak case. Nevertheless, the present data are significant and offer insights into individual lives, behaviors and values in the uncertain context. The study shows that individuals use macro, structural opportunities in a creative ways, recombining resources they possess; they act not only in a given institutional framework but also manage to find alternative and additional mechanisms for solving the problems they face.

APPENDIX

1. Interview 1. –male, was born in 1955, finished secondary school; owned family textile manufacture for jeans dying, stopped working in textile industry, now has private firm in other sector (automobile industry)
2. Interview 2. – male, was born in 1980, graduated on Faculty of Sociology, University of Belgrade, Serbia; unemployed, trying actively to find job in Novi Pazar for 4 years.
3. Interview 3.- female, was born in 1983, graduated on Faculty of Economics, University of Kragujevac, Serbia; she is now on master studies at Economics, University of Nis, Serbia; employed in big textile company as a marketing manager for 2 years.
4. Interview 4.-male, was born in 1983, graduated on Faculty of economics, management at University of Novi Pazar; employed as a manager in small textile firm for 4 years; firstly he worked in production and last year he was promoted to managerial position
5. Interview 5. – female, was born in 1969; finished secondary school; employed as a sale manager in medium textile firm owned by her husband and brother-in-law for 18 years
6. Interview 6.- male, was born in 1947; finished master studies in Economics, University of Kragujevac; Serbia; writing PhD thesis about textile industry in Serbia; professor on the University of Novi Pazar, Department of Economics; he was employed in the socialist plant “Raska” as a middle range manager; he worked shortly in one private textile firm in the late 1990s.
7. Interview 7.- male, was born in 1982; graduated on Economics at University of Novi Pazar, Serbia; on the masters studies on Economics at University of Novi Pazar, Serbia; employed in association of textile producers ASSTEX for one year.

8. Interview 8.- male, was born in 1956. Graduated on the Faculty of Technology and Metallurgy, University of Belgrade, Serbia; employed in big textile firm for 9 years; he worked in “Contemporary Confection Raška” as production manager.
9. Interview 9.- male, was born in 1962. Finished secondary school; director of big textile company which started to operate in 1992 as family business.
10. Interview 10. –female, was born in 1984, graduated on Faculty of Sociology, University of Belgrade, Serbia; now on PhD on Faculty of Sociology, University of Belgrade, Serbia; employed in Institute for Sociological Research, University of Belgrade, as secretary for 2 years.
11. Interview 11.- female, was born in 1975; finished secondary school, employed as an administrative in small textile firm for 6 years.
12. Interview 12.- male, was born in 1960; finished secondary school; the owner of medium textile firm which started to operate in 1993.

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