Productive Informality and Economic Ties in Emerging Economies: The Case of Cluj Business Networks

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Studies of economic phenomena in the post-socialist region often point out that the businesses here have a particular affinity with informality and personal ties.\(^1\) Usually focusing on different locations, the ‘new economic sociology’ revived Polanyi’s concept of ‘social embeddedness’ of the economic realm (Polanyi 1957) and documented in a variety of settings and levels the fact that economic action cannot be understood if abstracted from other relations between individuals and various entities (like firms, political parties or other individuals).\(^2\) In a constant background dialogue with the liberal position that tries to maximise the degree of autonomy of the economic realm, these studies make a strong case out of the contrary: rather than an exception from the general/normal functioning of a capitalist economy, the intermingling of these spheres is constitutive to it.

When it comes to the former socialist countries, it is still often the case that accounts of informality and personal ties become instrumental for a different rhetoric. Personal ties among economic and political actors are easily brought forth as arguments supporting the thesis of an abnormal functioning of the economy in the region. This logic is still tributary to the imagery of ‘unfinished transition’, in which the former socialist bloc is undergoing (and having difficulty in completing) a process of rendering the economic realm into an impersonal/autonomous one (for a comprehensive critique along these lines, see Borocz 2000).

By saying this we do not imply that any account of economic informality or any documentation of cases of corruption and illegal actions referring to the postsocialist area falls into this trap. The intention is simply to emphasise that the existence of strong formal and informal ties between business actors can and should be discussed outside an \textit{a priori} framing of it as corruption with negative and suboptimal effects. Our paper introduces the case of the business environment in the city of Cluj, Romania, as an occasion to explore further the issue of the relationship between informality and situated economic action.

One of the salient aspects of the economic life of the city is the recurrence of a set of names of business people who appear to be involved in most of the big economic events. The formal and informal ties among these individuals become visible in the media coverage of the various company merges, sells, or auctions. The local businessmen who are among the highly ranked nation-wise (Capital 2006) appear to have strong ties among themselves. As suggested above, one possible reading of these facts would point to a case of a corrupted business environment, which can be dismissed as yet another indicator of a failed transition to a \textit{healthy} (i.e. impersonal) economic environment. We consider these categories to be unproductive for an adequate understanding of the situation.

As a consequence, our paper explores two directions. First, we investigate whether our data supports the hypothesis that the business world in Cluj is a strongly networked one (i.e. the big local economic actors tend to be tied to each other to a greater extent than in similar locations). Second, we ask why it is these particular actors that were successful in the current reconfiguration of the city. By tracing back the different contexts in which a faction of the

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\(^1\) We refer here to David Stark’s discussion on the strategies employed by economic actors in relation to property of firms, where the fuzziness of demarcation lines is being maintained and used for shifting liabilities towards the state and concentrating resources in their favour.

\(^2\) See for example, Krippner et al., 2005; Bandelj, 2002; Ansell, 1997; Padget, 1998; Padgett and Ansell, 1993; Granovetter, 2005.
economic elite in Cluj has been acting, we want to show how this informality was encouraged by the changing macro conditions, how it came about in this specific form and in which way it functioned as a resource contributing to the current success of these individuals. We suggest that a simple reading of the situation in terms of corruption or unhealthy business environment is analytically unsatisfactory.

**Placing Business Networks in their Context: the Successive Stages of Post-Socialist Cluj**

Cluj-Napoca is one of the largest Transylvanian cities, with a population of around 350,000 inhabitants that has great seasonal fluctuations due to the significant number of students that attend one of its seven state and four private universities. It is the second university centre in Romania, after Bucharest, and it attracts students from all over the country, although a big share of them originate in Transylvania.

For social scientists, Cluj is mostly familiar due to its particular ethnic configuration and manifestations that led to famous studies (like Brubaker et al. 2006). While the Hungarian population represents around 18 per cent according to the last census, it had been around 30 per cent in 1989, 50 per cent in the 50s and over 80 per cent in 1941. After 1989 the local administration had a strong nationalistic agenda, very easily visible in the omnipresent colours of the Romanian national flag (red-yellow-blue) on various objects in the city, starting with flags and going as far as patterns of tiles on the pavement, lamp posts and bins. Apart from the symbolic level, this agenda also translated into strong economic protectionism of the city, blocking the access of foreign investors and isolating Cluj from the global fluxes of capital.

In the early 90s the new democratic institutional arena favoured a particular faction of the local elites, namely the ones interested in promoting their ethnic agenda. In Cluj and surrounding cities (i.e. Targu Mures), elections were won by politicians with primarily nationalist concerns. An analysis of the parliament structure shows that, unlike the other great university centres in Romania, the graduates of Cluj University that ended up holding a position in parliament were associated either with the Romanian nationalistic party PUNR, or the Hungarian RMDSZ (Culic 2002). Their professional background was mainly in the Humanities, as opposed to the members of the parliament coming from the other university centres, who had mainly technical degrees, and who typically held a managerial or an administrative position (Petrovici 2006). Therefore, the local elite from Cluj that entered the Bucharest scene and occupied a position which would potentially facilitate their direct involvement in the process of national-scale resource distributions, were not business people and had a predominantly different agenda. The political context blocked the mobility of local managers to the parliament and therefore made it impossible for the business-oriented factions to access the nationally distributed resources (Petrovici 2006).

A shift in the relation of the Cluj business world with the Bucharest political arena took place between 1996 and 2000, when the liberal orientated political alliance CDR won the elections at the national level. The main electoral pool of this alliance was Transylvania, and Cluj became an important supporting pillar for the new political regime. These years were marked by the massive privatisation of the biggest companies that were at that time still state-owned. It is important to emphasise the differences between the ways in which the managers

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3 Kolozsvár in Hungarian and Klausenburg in German.
4 If they were interested, however, in business, it was to favour the Romanian capital over the Hungarian one. Their main focus was financial and not productive, as was the case with the managers or engineers seated in the parliament. An instance of this type of interests is the first Romanian bank, which was founded in Cluj and had its major shareholders and managers openly favouring, or being members of, the nationalist parties.
from Transylvania and the ones from the rest of Romania positioned themselves in relation to these reforms. Their peculiar position in relation to the Bucharest arena, a space occupied by people with alternative agendas, led the Transylvanian managers to favour a strategy similar to those from Central Europe. This translated into either selling the enterprises to foreign investors while negotiating a managerial position for themselves, or into becoming part of the group purchasing the enterprise. This differs from the logic of political capitalism, in which managers sought the appropriation of assets and profits while transferring all the liabilities to the state (Brown, Earle and Telegdy 2006; Earle and Telegdy 2001).

The new local administration that was elected in 2004 had a big impact on the way in which both the city centre and its periphery started to get reorganised. The symbolic fight over the appropriation of the city in ethnic terms became less visible. Instead the reconfiguration of middle-class consumption and its distinction patterns became more striking. The cafes in the city centre became increasingly popular and a space of differentiation among the profile of the highly educated and with above medium income users emerged and solidified (Petrovici 2011a). Five neighbourhoods (with varying levels of luxury, but extremely high prices) were under construction and the first two big shopping malls opened in 2008, with a plan of having two more in the following years. In the same year, Nokia, Siemens, Emerson, Bechtel, Trelleborg, Auchan and Carrefour entered the Cluj landscape, leading to a reconfiguration of the labour market and a new wave of population growth (both low and high educated) into the expanding city. In early 2008, before the global economic crisis, the rate of unemployment was estimated at less than 1 per cent, dropping from 3.5 per cent in 2004. It was obviously a period of economic boom and of re-scaling of the local economy by a strong interaction with the global sources of capital.

**Placing Networks under the Formal Analytical Lens: the Research and Data**

Our research design combines the formal analysis of networks with data obtained through qualitative methodology (document analysis and interviews). We attempt to bring the analytical insights of Social Network Analysis (SNA) of economic actors closer to the substantive debates in sociology.5

Our initial knowledge of Cluj pointed at the configuration of the local business groups as an important feature of the economic environment. In order to disentangle the particularities of our case, we decided to make our endeavour an (asymmetric) comparative one. We consequently chose Timisoara and Brasov, two other Transylvanian cities, as the points of comparison. This decision was guided by previous research showing significant inter-regional differences of firm profiles throughout Romania.6 The two other cities correspond roughly to the same regional profile, but do not share either Cluj’s ethnic configuration, or its history of local administration. We intended therefore to minimise the differences among our cases in as much as their overall economic profile and size is concerned. The usefulness of the comparison comes from the particularities of the local administration policies in relation to foreign capital. While we cannot draw strong causal statements from the data we obtained in this way, we believe the comparative observations are insightful for indicating the

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5 The need to move beyond the mere description in formal terms of the interlocking directorates of firms is signalled firmly by Mizruchi (1996). The technical tools should be used in order to address more substantive sociological questions about the effects, causes or alternatives of these intersections within the economic sphere.

6 Transylvania emerges roughly as being more oriented towards production than the other regions; Moldova’s typical enterprise is trade oriented, while Southern Romania and Bucharest appear as more orientated toward services destined to the multinational companies that are establishing their national headquarters in the capital (Petrovici, 2011b).
particularities of the economic trajectory of Cluj in the past two decades.

Inspired by the technical tools of the economic sociology literature focusing on interlocking directorates (for an early review see Mizruchi 1996; for more recent analyses see Elouaer 2006; Schwarz and Lyson 2007), we used publicly available data\(^7\) for highlighting the existing links among the individuals who own the largest companies in Cluj, Timisoara and Brasov. Two types of networks were mapped out: one among companies, in which two firms appeared as linked if they have a common share-holder; and one among the share-holders themselves, in which a tie among two actors signified the fact that they appeared together in the ownership structure of a company. We then used some of the techniques of SNA in order to describe the resulting graphs.\(^8\)

**Comparing Cluj to Brasov and Timisoara**

The standard measures used for characterising social networks have small absolute values and did not indicate large differences among the three cities analysed (see Table 1 below). All three networks appear as only loosely connected, while the differences in the values of the indicators are too small to be considered statistically significant. For example, the indicators for network density have very small values, ranging from 0.0016 to 0.0035. This means that only 1.6 per cent of the total possible ties in the Cluj graph is actually observed empirically. Also, the degree of network centralisation is very small, indicating overall large distances among actors; on the contrary, for dense networks, these indicators should have high values pointing at small differences among nodes. However, taking into account the fact that we focused on relatively small firms and that we looked at the structure of property, not at managerial boards, the small figures are hardly a surprise.

<table>
<thead>
<tr>
<th></th>
<th>Cluj</th>
<th>Brașov</th>
<th>Timișoara</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of shareholder boards</td>
<td>2.17 (1.71)</td>
<td>1.84 (1.75)</td>
<td>2.05 (1.15)</td>
</tr>
<tr>
<td>Number of components</td>
<td>252</td>
<td>182</td>
<td>202</td>
</tr>
<tr>
<td>Size of components (mean and Std Dev)</td>
<td>3.16 (3..8)</td>
<td>2.76 (2.35)</td>
<td>2.70 (1.17)</td>
</tr>
<tr>
<td>Bi components</td>
<td>297</td>
<td>192</td>
<td>210</td>
</tr>
<tr>
<td>% Growth BiComponents/Components</td>
<td>15%</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Density</td>
<td>0.0016 (0.0412)</td>
<td>0.0035 (0.0605)</td>
<td>0.0021 (0.0498)</td>
</tr>
<tr>
<td>Freeman’s Network Centralization</td>
<td>0.07%</td>
<td>0.38%</td>
<td>0.12%</td>
</tr>
<tr>
<td>Clustering Coefficient</td>
<td>0.419</td>
<td>0.459</td>
<td>0.569</td>
</tr>
<tr>
<td>Transitivity (undirected)</td>
<td>26.04%</td>
<td>28.38%</td>
<td>31.64%</td>
</tr>
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Table 10.1. Descriptive statistics for the business networks from Cluj, Timisoara and Brasov

* All figures are our own calculations

While the differences between the densities of the three networks are not (statistically)

\(^7\) We purchased the publicly available Borg Design CD, which offered information on the economic profile and structure of ownership of all active firms in Romania, we selected the top 200 firms in each year from 2000 on. As the overlap between these rankings was rather high, we ended up analysing the ownership connections among 610 firms in Cluj, 499 in Brasov and 469 in Timisoara.

\(^8\) The technical terms used in this paper are accompanied by footnote explanations. For a comprehensive discussion of SNA techniques, as well as for further explanations of the technical terms appearing this paper, see Wasserman and Faust, 1994.
significant, there are differences in Table 1 that hint in the direction of our hypothesis. The largest difference can be noticed for the Clustering Coefficient, which is a measure of the degree to which the density of the network comes from the fact that it contains strongly linked small sub-graphs, that are disconnected from each other; the smaller the value of this coefficient, the more links exist among the cliques.\footnote{We use ‘clique’ in its technical sense attributed by Social Network Analysis; it refers to a set of nodes between which all the possible ties are realised. The board of each firm is a clique in this sense because the very definition of ‘two linked nodes’ is given by their owning the same firm.} Given the fact that the property structure (from now on \textit{property board}) of each firm represents a clique, the smaller clustering coefficient suggests that there are more inter-board links in Cluj than in Brasov or Timisoara. This would mean that in Cluj there are more individuals who simultaneously own two or more firms. Following a related logic, the Transitivity Index shows the percentage of transitive triads in the network; the more intransitive triads, the greater the chances that the links they measure are inter-board and not simply intra-board.

Another set of differences supporting the same line of argumentation arose when we approached the networks from the point of view of their components.\footnote{Components are the subgraphs that are connected within and disconnected from the rest of the graph} The average size of these components is larger than the average size of the property board, for each city, indicating that there are also inter-board ties; the largest difference is, again, obtained for Cluj. While the absolute number of components is difficult to interpret - as it can be easily increased by a large number of small and disconnected firms - the larger number of bicomponents for Cluj indicates that there are significantly more cutpoints here.\footnote{Actors whose removal leads to the isolation of a component into two bicomponents are called cutpoints.}

A striking difference between the three cities emerged when we analysed the main components of the networks, which is the largest sub-graph connected within and disconnected from the rest of the graph. While for Timisoara the maximum number of nodes belonging to such a component is 9 and for Brasov – 8 (visible in Figure 1), the main component for Cluj comprises 57 individuals (its extended version is represented in Figure 2).

![Figure 10.1. Main components of the Brasov and Timisoara business networks](image-url)
The purpose of mapping out the business networks in the three Transylvanian cities was to find out first whether the local economic elite actors of Cluj are indeed strongly tied among themselves, and second whether the degree of connectivity of the Cluj case holds some specificity, or is rather to be encountered in all similar localities. Using SNA methods, we realised the ‘very dense network’ is to be used only as a metaphor, as in absolute terms the values for the overall densities of all three networks were extremely small. However, there is indeed significant difference among the three networks when we look at sub-graphs of which they are composed. In Cluj, the largest connected region of the graph encompasses most of the big economic actors, both firms and individuals. Supporting our thesis regarding the particularity of Cluj, there are no large connected sub-graphs in the Brasov and Timisoara networks; the big economic actors in these cities are not tied to each other.

The Extended Main Component of the Business Network in Cluj: Ties and their Origin

After having gathered more data on the 57 economic actors comprising the main component in Cluj, we decided to include some other firms that they own (but which were not included in our original sample because they were not among the top 200 in the past seven years). As a result, new ownership ties became visible between our initial firms. The enhanced main component comprises more than 120 business people in more than 70 firms.

Figure 10.2. Property networks of individuals in Cluj 2007 (extended main component)

As highlighted above, the similarity refers to the overall profile as production oriented cities and their size.
As expected (Granovetter 2005), the apex of this network is Transylvania Bank, a very successful locally founded financial institution. The other two centres of the network are a real estate firm (IMO Finance) and a former state industrial firm, Tehnofrig. A closer look at the profile of the firms included in the extended main component hints towards the existence of a very powerful alliance between financial institutions, real estate firms, former socialist enterprises, real estate development companies and transport companies. A smaller cluster is formed by the car dealer firms and the leasing subdivision of the Transylvania Bank.

As for the business people themselves, most of them belong to business clubs such as Lionel (4 clubs), Rotary (2 clubs), are well known to be friends and often share leisure activities. Most of them have a university degree and their businesses can be traced back to the late years of the socialist period. To take only two examples, the stories of the two most important current businesses (Transylvania Bank and Astral Telecom) involve cooperation between professionals who developed their ties in the informal socialist markets and later successfully extended them on the unregulated post-socialist ones. One of the central nodes in the network, Dorel Goia, is a former history teacher who started off his entrepreneurial activities by distributing translated copies of films during socialism. The small-scale business based on his passion for movies grew in time, especially as he teamed up with Horia Ciorcila. The latter was an important player on the informal postsocialist currency market and for some time he was involved in petty trans-border commerce. Together they created a cable television firm that proved very successful in later years. The company, Astral Telecom, was later sold to foreign investors, but the links between the two actors remained, and are reflected in their ongoing common investments. Another line of business during socialism was centred on dealing with cars and car components. The same Horia Ciorcila shared a passion for cars and rallies with the Nicoara brothers; Titus Nicoara was an official referee for rallies, and they were involved in organising both official and unofficial ones. These activities later transformed into the transport companies that can be seen in the current network.

The emergence of the strong network of solidarity among professionals in the city can be traced back to the socialist logic of production on two interrelated dimensions. The first one is a more general mechanism of sustaining the primary economy through informal adjustments of the shortage economy. This needed strong and dynamic lateral ties between managers and professionals (Verdery 1991; Szelenyi, Beckett and King 1994). The second level is more intimately intertwined with the fact that their specific locality is an important university centre in the country, and therefore the number of intellectuals endowed with cultural capital is higher compared to other sites. As we could see in the examples above, the numerous professionals favourably placed in the hierarchies of power (Szelenyi 1978) were in a position to transact easily on secondary markets with money, cultural or other goods.

What followed after 1989 for these individuals was, as suggested in the previous section, a period in which their main arena for action was forced to remain at the local scale. The significant social capital they had acquired during socialism was used to mobilise information, knowledge and capital in the context of local protectionism and the impossibility of political capitalism strategies. This is a period in which the businesses became consolidated and successful at the local level. While restricting their opportunities to reach for the sources of global capital, the protectionist politics of the ultra-nationalist local administration had an ‘incubating’ effect on the business people. By this, we mean that the

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13 The former socialist enterprises have the advantage of being centrally located in the city on very valuable estates. While they retain their initial profile once relocated at the outskirts, the land is reconverted in profitable residential estates.
Cluj business world became a very strongly networked one, and that actors ‘grew’ together, as they had time to accumulate capital while being kept away from the crushing foreign competition. After 2004, when their economic interests ceased to be restrained by an ethnic agenda, and reforms at the national level induced a favourable economic environment, these strongly networked actors began to interact successfully with the supra-national sources of capital.

We are reluctant to classify this business network as a business group, at least following Granovetter’s (2005) influential definition, ‘a set of separate firms bound together in a persistent formal or informal ways’ (429). The links between the firms are shifting in time and most of them are not persistent ones. What is persistent are the links between the shareholders themselves. Our stronger claim is that these firms are not linked through complicated networks of direct or indirect reciprocal ties as described in the classical study of Stark (1996), but by their common shareholders, persons not firms. The nature of the links suggests that this is far from being a type of recombined property strategy, employed in order to create fuzzy borderlines between firms to permit dispersion of liabilities and concentration of resources. Instead, it seems that in order to render the complex postsocialist environment manageable – both its challenges and its opportunities – economic actors have engaged in a process of diversification of the personal business portfolio through involvement in specialised firms. Contrary to the recombined property thesis expectation, business actors engage in drawing clear borders between firms, making easier the management process of demarcated resources. In a context of specialised firms tackling only a small section of the business multiple ownership permits the flow of information about opportunities. Therefore, the informal ties among them were used as social capital that led to greater economic efficacy.

Conclusion: Informality is not Black and White

The focus of our paper has been a particular faction of the business environment in the city of Cluj, Romania. We started off from the hypothesis that there are long lasting informal ties among the biggest local economic actors, visible in the coverage of the most important economic events. First, by using the formal techniques of Social Network Analysis on publicly available data, we discussed the hypothesis of the existence of strong ties. We compared the situation in Cluj to that in Timisoara and Brasov, two cities from the same region and of similar size, but with different ethnic configurations and history of local administration. We concluded that indeed the case of Cluj holds some specificity in this respect, as in the other localities, the largest business actors appeared as isolated and were not involved together in owning firms.

After having established that the density of the local business networks is apparent from our data as well, we proceeded to a discussion of the implications of this situation. With the intention of avoiding a simplistic reading of this strong interconnectedness in terms of unhealthy business environment, we attempted to untangle the way in which it came to be. We traced back how these individual local-level strategies were developed during the various

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14 As our discussion of the comparative side of our research indicates, it is one of the particularities of the business world of Cluj that the richest individuals are strongly connected among each other. In the other two cities we analysed, the wealthiest local individuals (according to the official ranking of the richest 300 individuals from Romania, Top 300 Capital, 2006) were not linked among themselves through the type of ownership structures we analysed.

15 The analysis on longitudinal network data is in progress. We base our claim on consistent information hinting in this direction coming from the much-mediated public transactions and from our interviews.
stages of the intricate interaction between the local level political context and the national economic and political sphere in the post-socialist era. We argued that most of these ties emerged during the socialist period, as networks of lateral solidarity among professionals. Further, strengthening the links among local businessmen was encouraged by the lack of access to the national level of resource control and distribution. The economic protectionism of the nationalist local administration allowed for an accumulation of capital that was successfully used after 2004. Contrary to the recombined property thesis expectation, business actors have been engaging in drawing clear borders between firms, facilitating the management process of demarcated resources. In a context of specialised firms, tackling only a small section of the business environment becomes more feasible and multiple ownership permits the flow of information about opportunities.

By describing the way the different stages of Cluj as a locality have impacted upon the opportunities and restrictions available for business, we aimed to explain the formation and subsequent development of these informal ties. Our argument is that we should avoid any *priori* assumption that this strong interconnectedness is a sign of corruption or of faulty economic activity; the post-socialist location of this case does not make informality equal illegality, corruption or inefficiency by default. However, assessing whether the activities of these businessmen, the mergers, selling or division of firms among them were at all points legal goes far beyond the scope of this paper and is not part of our argument. Our point is that if further research focussed on these aspects, it would need to find evidence beyond the existence of strong lasting friendship ties among businessmen, or the easily available examples of multiple ownership.
Works Cited


Padgett, J. 1998. “Multiple Networks and Multiple Discourses.” SFI Program on ‘Emergence of States and Markets.’


