

Trust in Rural Areas

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Abstract

This paper discusses elements of trust in rural areas in terms of trust influencing business processes, economic sustainability and business innovation in a regional and rural network context. Contrasting globalisation and localisation, the paper starts with a brief overview of cluster and network formation in general and highlights federal and state governments' renewed interest in industry collaboration through clusters. The paper then contrasts two local Victorian studies, one in the grains industry and one in the tourism industry, and explores the determinants and impact of trust based relations on the success of rural networks, cluster formation and maintenance in terms of the social, environmental and economic agendas in a global economic climate. Contrasting sectoral results indicate that social network cohesion, commitment, shared vision, drive and passion, which were found to be present in the grains community and which were found to be absent in the tourism community, were strong indicators of cluster and network strength. These contrasting study results are followed by a discussion on conditions and pathways towards building trust within rural clusters and networks through social cohesion, the exchange of information and knowledge. Related implications for public policy cluster initiatives and evaluation measures conclude the paper.

Introduction

The growing influence of information and communication technologies (ICT) as the critical factor in shaping modernity and the distribution of economic advantage is relevant to regional and rural development as it directly impacts on interactions between local and global forces. Giddens (1990) conceives globalisation as the stretching process between local involvement and interaction across distance whereby the "local transformation is as much part of globalisation as the lateral extension of social connections across time and space" (Castells, 2000; Giddens, 1990, 64; Robertson, 1995).

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Applying his so-called 'glocalisation' framework, Robertson (1995) places spatial issues on an equal footing with temporal ones by examining local and global forces in a concrete locality. In Castells' (2000) notion of a 'regionalized, global economy' government intervention, regional (government) structures and networks play a significant role in the positioning of a region in the global economy (p.102). Networking and the collaborative nature of the global economy reinforce tendencies towards geographical clustering because of the advantages to be gained from proximity to other firms in specialist and related industries (Enright & Roberts, 2001; Storper, 1997).

Especially for small and medium size enterprises (SME), which make up the majority of Australian firms (ABS, 2000), local networks represent a complementary response to insecurity arising from development and use of ICT technologies. It is said that the drive for SME to collaborate reduces uncertainties in the global economy and is a means of supplementing and complementing limited resources (Doloreux, 2004). Contrasting globalisation and localisation, Enright and Roberts (2001) conclude that in the new economy networks and clusters are regionally driven with local communities seeking to maintain their social, environmental and economic agendas in a global economic climate (Enright & Roberts, 2001). There is increasing evidence that the performance of existing enterprises is significantly improved by networking and clustering (Rosenfeld, 2001).

Network cohesion, common culture, commitment and trust among network stakeholders have been identified in the literature as key features to facilitate collaboration for mutual understanding and benefit (Håkansson & Snehota, 1995; Putnam, 2000). When these characteristics are present, collaborative and associative forms of governance can enhance the economic competitiveness of regional and rural business domains and collaboration between firms, governance bodies and learning institutions can play an enabling role in regional and local capacity building (Leibovitz, 2003). It has also been argued that those [nations] that are adept at matching institutional innovation with the emerging techno-economic paradigm are likely to forge ahead; those that suffer from institutional 'drag' or inertia may fall behind (Freeman, 1994).

Inspired by the prosperity of regions such as the 'Third Italy', which is characterised by strong local SME clustering and economic interdependencies, policy makers in different parts of the world have been seeking to duplicate successful SME clustering and networking experiences to unlock the wealth of their own regions (Asheim, 2001). This is not to say that the Italian experience can easily be emulated. In Italy, cluster development has been dominated by the specific history and culture of northern Italy. This suggests a dominance of region rather than industry, an experience that may not be easily transferable to the rest of the world (McRae-Williams, Lowe, & Taylor, 2005).

The SME clustering and network literature is quite specific about local conditions have great bearing on the clustering process; that clustering is conditional on network member interaction; and that SME innovation networks are sustained through highly localised knowledge exchange and networking processes (Doloreux, 2004; Maskell & Malmberg, 1999). Thus, the message that may be extracted from the literature is that economic regeneration strongly depends on social cohesiveness and trust.

In Indonesia, for example, SME clustering remains in its infancy, despite policy support to foster SME clustering. Indonesian SME clustering is dominated by latent clustering characteristics, typified by stagnation, insufficient critical mass, a low degree of actor interaction and a lack of access to external networks and markets (Tambunan, 2005).

Conversely, Konstadakopulos (2000) provides empirical evidence of successful cross-border SME clustering in Singapore and Malaysia. Since aforementioned SME not only collaborate but also compete in an innovative milieu, Konstadakopulos (2000) deducts that information sharing and learning is taking place based on prior existence of trust and in an atmosphere of continued trust building between stakeholders.

In Australia, the Federal Government has also shown renewed interest in, and support for, industry clustering, although the philosophical debate whether clustering should be government- or industry-led varies from Australian state to state. The state of Victoria, for example, has opted for an industry-based cluster policy that focuses on attracting major national and foreign companies into the state (Enright & Roberts, 2001). Victoria's policy concentrates especially on emerging technologies and market opportunities for the growth of the ICT industry (Multimedia Victoria, 2002a).

In the past, Australian SME have not been known for their collaborative approach to business (Australian Bureau of Industry Economics, 1999), although a study of 2500 Australian SME on their involvement in business networks noted a significant level of interest in networking or formulating networks in the future (Dean & Holmes, 1997). The researchers identified two types of business networks — formal and informal networks —, with formal networks constituting formal arrangements between companies to consolidate resources and informal networks constituting loose arrangements facilitating information exchange.

Service companies were more likely to be involved in formal and informal networking than manufacturing companies. Lack of suitable partners, lack of time and lack of financial assistance were cited as inhibiting factors for collaboration. The latter study indicated that networking was likely to become important in the business future of Australian SME.

Since the 1990s, there have been accounts of successful Australian collaboration (Insights, June 2002). Positive cluster accounts have emanated from the agribusiness sector in western Victoria (Lowe & Berrisford, 2002) — which will be expanded upon below — as well as from the tourism industry. Natural resources have long provided small tourism firms with a clustering incentive around geographic icons such as a natural health spa or a national park. Natural assets in Far North Queensland, home of The Great Barrier Reef, have for example driven the Queensland tourism industry to concentrate on certain locations, demonstrating that the tourism industry has the potential to achieve positive economic outcomes through clustering (Roberts, 2000). On the virtual tourism cluster front, a collaborative e-commerce gateway was successfully adopted as an additional destination sales channel and supply chain booking service in Daylesford, Victoria (Multimedia Victoria, 2002b).

Despite the aforementioned success stories, SME participation in clustering and networking is clearly far from guaranteed. The limited Australian cluster literature concurs that small firms still do not have a natural propensity towards collaboration. Having identified some seventy regional small business cluster initiatives, Brown (2000) believes that Australian clusters have insufficient focus and still lack critical mass. A cluster development and cross-industry collaboration study in the state of New South Wales revealed much initial scepticism and lack of trust among industries and firms (Martinez-Fernandez, 1999). A regional Victorian tourism network study (Braun, 2004) similarly suggests that lack of trust negatively contributed to clustering efforts in regional Australia; while a recently completed cluster complementarity study on co-located regional wine and tourism clusters suggests that cluster overlap does not necessarily influence the capacity of clusters or turn them from passive into active clusters (McRae-Williams et al., 2005).

The Business of Networking

Typically, firms and individual actors are embedded in a variety of formal and informal professional, social and intellectual exchange networks (Granovetter, 1973). The extent and importance of these networks usually relate to firms' and actors' horizontal and vertical relationships, network culture and strategic complementarity. The knowledge and social capital a person accumulates through networking is highly personal, tacit knowledge, and considered a valuable asset (Nonaka & Takeuchi, 1995). In terms of social capital transaction, external network relations accentuate 'bridging' forms of social capital, whereas internal network ties focus on 'bonding' forms of social capital (Putnam, 2000).

Providing a comprehensive review of social capital literature across a variety of disciplines, Adler and Kwon (2002) list trust; reciprocity; social norms and obligations; participation in relationships; and pro-activity among the elements contained in social capital. Freeman (1991) (Freeman, 1991) similarly refers to factors such as trust, ethics and confidence in the cooperativeness of others for effective networking. Trust and reciprocity within networks and clustering domains hence very much depends on the individuals within the network. It is not unusual for SME to fear opportunistic behaviour from competitors and scholars commonly stress the importance of trust and personal interaction in interfirm alliances (Gulati, 1995; Ring & Van de Ven, 1992). The trust may be historical and already exists between individuals of different firms or, conversely, may need to be fostered.

Trust and social capital are attributes not only of industry networks but also of entire geographic regions, which can help expedite economic development and facilitate large-scale economic activities. Hence trust is a useful lens through which to examine the levels of social capital within a business community, as it is generally believed to be not only a good indicator of network cohesion, but also of related exploration of economic opportunities (Fukuyama, 1995). Since trust highlights the influential role of social networks it may be described as a characteristic of regional or rural innovation. In this paper clusters and networks are considered as different yet interdependent structures, whereby small business network structures underpin the growth and sustainability of clustering. Clusters and networks should hence be seen as two separate constructs, each with its own distinctive characteristics (Figure 1).

Networks	Clusters
Networks allow firms access to specialised services at lower costs	Clusters attract needed specialised services to a region
Networks have restricted membership	Clusters have open membership
Networks are based on contractual agreement	Clusters are based on social values that foster trust and encourage reciprocity
Networks make it easier for firms to make complex products	Clusters generate demand for other firms with a variety of similar and related capacities
Networks are based on cooperation	Clusters take both cooperation and competition
Networks have common business goals	Clusters have collective visions

Figure 1: Clusters versus Network Characteristics
Adapted from Rosenfeld (2001)

High levels of networking and trust create embeddedness, strong ties and dependable behaviour (Granovetter, 1985), enabling open exchange of knowledge and ideas across the cluster domain, which in turn fosters high levels of localised collective learning, competitive advantage and innovation (Capello, 1999; Keeble & Wilkinson, 2000). The success of regions is, however, conditional on regional network and governance conditions.

In the next section of this paper, two Victorian studies are discussed, one in the grains industry and one in the tourism industry, which will provide empirical insights into the aforementioned relational capital propositions.

Two Case Studies

Grains Research Study

This project concerned a clustering study in the grains industry conducted in a rural geographic location in the western region of Victoria (Lowe & Berisford, 2002). Agriculture is in the midst of major structural changes. Production and the prospects for generic commodity products are declining whilst component specific commodities and specific attribute raw materials for food and industrial uses are growing. Agriculture increasingly adopts a business and manufacturing philosophy. At the heart of this is the creation and capture of value through a focus on user needs and improved supply chain management. It is believed that appropriate value chain management — in value chains each actor adds value to the supply chain — improves the profitability of growers through (a) differentiation which leads to improved performance for users, higher prices and market share; and (b) productivity gains to producers which reduce costs.

The aims of the study were to identify and capture best practice in the management of the supply/value chain in the grains industry by conducting case studies of five regional Victorian organisations, including the Birchip Cropping Group, The Lentil Company, Wimmera Grain Company, Lowan Whole Foods, and the Victorian Institute of Dryland Agriculture (VIDA). The five organisations were mapped along different aspects of the value chain and evaluated on three key project outcomes, namely (1) reconfiguration and linkages across the value chain; (2) specific value chain management strategies; and (3) identification of general skills and resources for implementation of value chain management.

In assessing the extent and infrastructure of the grains industry in the rural region, the study found that regional agricultural actors displayed a high level of trust and maintained close communication ties, displayed a high level of trust and were committed to exchanging tacit knowledge for cluster growth purposes. In identifying a high level of trust, the case showed that the success of this cluster is based on

- Visionary leadership/entrepreneurship
- Tailored information flows
- Processes and capabilities through networks in which there are high levels of trust
- A degree of inter-organisational planning between value chain participants
- Assets distributed up and down the value chain independent of ownership

As a result, a high level of value was created for both the performance of the cluster and for the end user of the product (Lowe & Berrisford, 2002).

Tourism Network Study

This action research (AR) study investigated the adoption and diffusion of Internet technologies in a regional Australian tourism network in the Grampians tourism region of Victoria. The Grampians are considered one of Australia's renowned tourism attractions, drawing in excess of 1.2 million visitors annually. The current boundaries of the Grampians product region cover a vast geographical area stretching hundreds of kilometres across a diversity of landscapes and nature-based tourism experiences, including a mountain range, several national parks, rivers, lakes, wetlands and desert. The region encompasses some 900 dispersed small business operators, seven major townships, numerous villages and seven local government shires (Ritchie, 2001).

The aim of the study was two-fold: to investigate the nature of the change process when a collaborative network seeks to adopt e-commerce; and to determine how the change process differed in the face of incremental change (adding some e-commerce solutions to the network), or radical change (changing the overall business model). The purpose of the study was to gain a better understanding of the economic, strategic and social potential of regional business networks in the current techno-economic climate. The brief was to help design a portal model that would support economic marketing and transaction efficiencies, and serve as an interfirm interaction and knowledge creation platform for regional stakeholders. An AR approach was adopted to design a portal model *with* rather than *for* network stakeholders. An AR approach also had the potential to engage the geographically dispersed Grampians actors in a dynamic 'learning by interacting' (Lundvall, 1992) process and prepare them for impending techno-economic domain changes. As part of the methodology, network actors were asked to meet with the researcher for a one-on-one interview; to participate in a one-day conference to formulate the design of the portal; and to take part in communications to finalise the portal model. Interaction took place over a period of eight months and involved a group of twenty network actors, who had a direct industry or governance interest in the network. The study used the nature of the network links as the unit of analysis.

In this study, the spatial make-up of the Grampians product region network proved to be a core determinant in the network's processes. Many of the small and micro tourism firms in the network felt disconnected from the network; behaved in an atomistic fashion; displayed a low level of interfirm trust; and showed little interest in clustering. This resulted in latent clustering behaviour, whereby some data and information was traded, but no valuable knowledge was exchanged. The study suggests a strong relationship between diffusion and network positioning, both in terms of place (status and position in the network) and space (the geographic make-up of the network). Thus, both place and industry had an impact on SME knowledge exchange (Braun, 2004). Without exogenous pressure on endogenous network relationships, regional industry actors shaped their individual futures in isolation. The latter study result is in sharp contrast with the aforementioned clustering study in the grains industry conducted in a geographic location near the tourism cluster.

In these two case studies, relational capital resulted in either strong or weak regional ties with implicit clustering outcomes. Both cases show that relational resources can be purposely used to encourage and enhance regional clustering success. These case studies also raise questions about SME understanding of the possible implications of operating in isolation versus through place and industry in terms of long-term impact on the region's global visibility and strategic opportunities.

Discussion and Future Directions

This paper has contrasted two local Victorian studies, one in the grains industry and one in the tourism industry, and explored the determinants and impact of trust based relations on the success of rural networks, cluster formation and maintenance in terms of the social, environmental and economic agendas in a global economic climate. Contrasting sectoral results indicate that social network cohesion, which were found to be present in the grains community and which were found to be absent in the tourism community, were strong indicators of cluster and network strength.

This raises new questions about trust and network/cluster development in different industries. Dean and Holmes (1997) identified two types of business networks — formal and informal networks — with service companies were more likely to be involved in formal and informal networking than manufacturing companies. Our research, to the contrary, suggests that in geographically dispersed regions service sector firms were less likely to be involved in networking than manufacturing firms. From our regional clustering studies we have also been able to deduct that industry type has an impact on social cohesion and networking/clustering processes, as illustrated below in Figure 2. To date, the tourism industry remains a largely unregulated industry with low entry barriers, allowing entrepreneurs to enter the industry with a low skill base. The grains industry, to the contrary, requires a high level of professionalism and industry knowledge.

Tourism Industry	Grains Industry
Low entry barriers	Professional entry requirements
Low/non-specialised skill base	Highly specialised skills
Weak network ties/weak social structure	Strong network ties/strong social structure
Low level of networking	High level of networking
Low level of clustering	High(er) level of clustering

Figure 2
Industry Characteristics

What are the implications for networking/cluster policy in different industries and different places? In considering the critical factors of regional/rural networking and clustering, it is essential to recognise the need for social cohesion and trust within an industry. This paper has shown that some places and some industries have better social cohesion than others and hence cluster/network better than others. Clustering policies often overlooks this important fact. If place and industry do play differential roles, clustering policies should allow for place and industry differentiation.

While manufacturing industries clearly have a common driver to deliver an enhanced product to market (e.g., the grains industry), service sector industries such as the tourism industry rely on external attributes (product). Although they can add value through product bundling,

creating a seamless product experience through networking and clustering is much more complex in an unregulated industry. Creating entry and accreditation standards within the tourism industry will lead to a more cohesive industry as a whole and will help service sector firms to define themselves as part of the industry cluster, network or region. It will also help to differentiate their product within an increasingly global marketplace. Good practises that can be held up as exemplars through “benchmarking” successful clustering/networking will also be useful. There is also an opportunity for local government to be part of a new partnership in lifting industry performance. Such a proposal would require a complete change of role for staff and a change of culture in the business community.

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