

Trust in Networks and Clusters

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INTRODUCTION

It is widely accepted that technological change underpins a global economy and that geographic location and concentration is of foremost importance for regional development and competitive advantage. The realities of global competition require an understanding on the local level of global markets and the complexities of interactions with multiple stakeholders along global supply and value chains. There is increasing evidence that the performance of existing enterprises is significantly improved by networking and clustering. Especially for small- to medium-size enterprise (SME) owners, which play an important role in the economy of countries, local networks represent a potentially complementary response to insecurity arising from global economic developments. 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.

The geographic scope of clusters can vary from a single city, state or region to a network of companies across state borders or even country borders. As industry clusters become more accepted, their definition, boundaries and composition become more complex, which has led some cluster researchers to focus on clustering activities rather than on clusters as such. This article focuses on clustering activities with an emphasis on network relationships.

NETWORKS AND CLUSTERING

A network is a collection of interconnected elements, the nature of which is determined by the relationships connecting the elements. For example, relationships can be economic, informational or social while elements may be individual, firm, group based or regional (Wasserman & Faust, 1994). As a result, networks can be studied in an array of elemental and relational varieties (Biggiero, 1999) with formations varying from cluster consortia in industrial districts to loosely coupled regional service

networks, online networks and emerging grass roots economic community developments. Clusters and networks are considered as different yet interdependent structures, whereby networks underpin the growth and sustainability of clusters (Rosenfeld, 2001).

Network cohesion, common culture, commitment and trust among network stakeholders have been identified in the literature as key features to facilitate collaboration between firms for mutual understanding and benefit (Håkansson & Snehota, 1995; Putnam, 2000). When these characteristics are present, collaborative and associative network forms can enhance economic competitiveness of regional business domains and enable regional and local capacity building (Leibovitz, 2003).

Porter (1998a) discusses competitive advantage as being created and sustained through a highly localised process and ascribes enduring competitive advantage in a global economy to local knowledge, relationships and motivation that cannot be duplicated by global partnering. Critical to Porter's analysis of clusters are the dynamic effects created by interaction of industry and place (Porter, 2003). Clustering is also partly determined by knowledge exchange, which relies on two critical factors: (1) geographic proximity and (2) social structure (Enright & Roberts, 2001). Rosenfeld (1997) distinguishes clustering activities by the intensity of social infrastructure and firm interaction, firmly placing social capital and trust as the basis of collaboration, information and knowledge flows in clusters. In this article it is suggested that both place and industry play a key role in successful clustering, as trust is embedded within industry and community networks.

THE BUSINESS OF NETWORKING

Local conditions have great bearing on the clustering process, as clustering is conditional on network member interaction and trust. Trust is a much debated construct, based around perceptions of honesty, reliability and a willingness to be vulnerable and open to

others (Mishra, 1996). Maher et al. (1995) identify the three main aspects of trust as integrity, benevolence and competence. Integrity relates to the notion that another party is honest and reliable. Benevolence relates to the perception that another party would keep the best interests of the “trustor” at heart. Competence pertains to the perception that another party is knowledgeable or possesses a certain level of competence.

Freeman (1991) refers to factors such as trust, ethics and confidence in the cooperativeness of others for effective networking. “Trust is the expectation that arises within a community of regular, honest, and cooperative behaviour, based on commonly shared norms, on the part of other members of that community” (Fukuyama, 1995, p. 26). Trust and reciprocity within networks and clustering domains hence very much depends on the individuals within the network.

Trust inherently involves risk, especially in the marketplace where the stakes are high. Unconditional trust rarely exists in the marketplace. It is not unusual for business owners to fear opportunistic behaviour from competitors. Opportunism can occur and trust can intentionally be violated for the benefit of one party (Granovetter, 1985). The trust may be historical and already exist between individuals of different firms or, conversely, may need to be fostered.

Trust can stem from a variety of factors, including common culture, language, geography, technology or history. In systems or networks, Zucker (1986) distinguishes three different sources of trust, for example, process-based trust, characteristic-based trust, and institutional trust. Process-based trust develops from concrete experiences of social and/or economic exchange and is brought as an expectation to future transactions. Characteristics-based trust is independent of a concrete exchange experience, but is based on personal

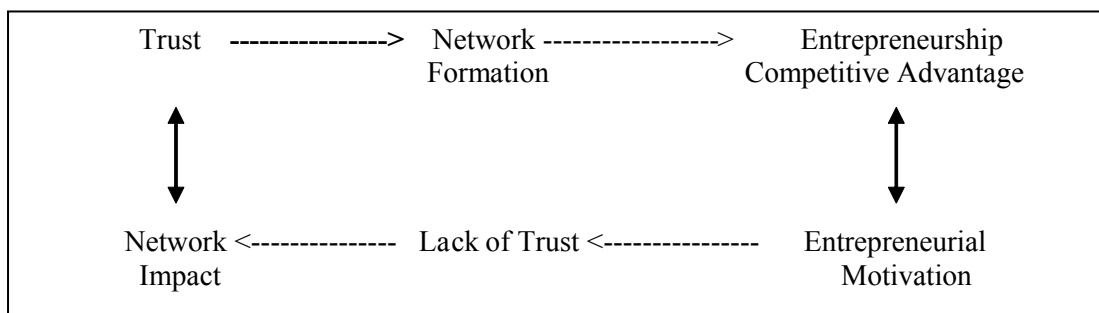
characteristics. Institutional-based trust transcends the concrete exchange experience. Based on knowledge, it is generated more diffusely in a wider network of relationships such as traditions or professions.

High levels of networking and trust in a business community create strong ties and dependable behaviour (Granovetter, 1985), enabling open exchange of knowledge and ideas across the cluster or network domain. Thus, it is suggested that networks that have high levels of trust foster entrepreneurship and competitive advantage. Conversely, the nature of how entrepreneurs work can impact on trust and network formation (Figure 1).

Three Australian studies provide some insights into the importance of trust in regional networks and clusters. In a regional small business tourism network study, both place and industry had an impact on SME clustering (Braun, 2004). In this study, tourism SME felt disconnected from the network and displayed a low level of interfirm trust. This resulted in latent clustering behaviour and no competitive advantage for the tourism region. 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 a clustering study in the grains industry conducted in a geographic location near the tourism region. In assessing the extent and infrastructure of the grains industry in the region, the study found that regional agricultural firms maintained close communication ties, displayed a high level of trust, and were committed to exchanging knowledge for cluster growth purposes. As a result, value was created for both the performance of the cluster and for the end user of the product (Lowe & Beresford, 2002).

Figure 1. Network-entrepreneur interaction



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