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Sustainability and Short-term Policies

Improving Governance in Spatial Policy Interventions

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Chapter 13

From Business to Territorial and Social Networks in Rural Development? Experiences from Rural Valencia (Spain)

Javier Esparcia¹

Introduction: From Vulnerability to Social Resilience in (Disadvantaged) Rural Areas

The existence of disadvantaged rural areas in Spain, as in many other Western countries, is a phenomenon which has its origin in the crisis of traditional agriculture and the dismantling of a social system based on and around agriculture. In Spain this crisis was linked to the Economic Stabilization Plans (during the Franco dictatorship), which since 1959 accelerated the deep economic and territorial changes, and had a negative impact on the most backward and least adaptable rural areas. These areas were a source of cheap labor for industry and services in the urban and industrial sectors. The rural exodus left many areas almost completely devoid of population and economic activities. Several decades later, rural communities are resisting disappearance, as they try through various strategies to adapt better to the new challenges of globalization the emergence and development of productive and social functions that were unknown just a few decades ago.

Vulnerability and resilience are two concepts that allow us to better situate the analysis and discussion of rural communities' resistance to disappearance, and their efforts to maintain certain economic activities to ensure a position in the context of social and economic sustainability.

The concept of vulnerability as a social phenomenon has mainly been used to refer to the exposure of communities or individuals to stress resulting from environmental changes (Watts and Bohle 1993). It therefore has what was originally an ecological component. Here, however, we may adapt it to refer to the self-perception of vulnerability held by rural communities and individuals in disadvantaged areas. The consequences of high levels of socio-economic (and even frequently ecological) vulnerability include migration or closure of businesses and companies located in rural communities in disadvantaged areas.

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With regard to our work, businesses and entrepreneurs (key players in the local social system), often label themselves as highly vulnerable due to the difficulties of competition experienced by many of them, largely as a result of their location in disadvantaged rural areas. Indeed, the weakness of their productive and/or social structures is what makes them more vulnerable in a highly competitive context, resulting in at least a sense of crisis by these rural communities and their key players. The abandonment of agriculture, the closure of companies and businesses, and the emigration of the population, are examples of the difficulties that often affect disadvantaged rural areas.

Rural communities' response to vulnerability is resilience. The concept of resilience originates from a strong ecological component. In this regard, resilience is a key element in the conservation of biodiversity and this diversity in turn reinforces the resilience, stability and functioning of ecosystems (Holling 1986). It is also clear that ecological and social systems have very close connections. (Zimmerer 1994).

Therefore, we may equally speak of the social dimension of resilience, with economic, political and institutional implications, as pointed out by Adger (2000: 349):

social resilience has economic, spatial and social dimensions ... but it is important to note that, because of its institutional context, social resilience is defined at the community level rather than being a phenomenon pertaining to individuals. Hence it is related to the social capital of societies and communities.

Thus, we understand social resilience as the capacity of communities and human groups (social systems) to resist, adapt and better cope with adversity and change, mainly economic and social, but also arising from the deterioration of resources and natural heritage (Jansen and Orstrom 2006), in a defined social and institutional context and with a defined availability of social capital.

When analyzing the resilience of social systems, we can take two approaches as references (both with origins in ecology). On the one hand, we can follow an approach which emphasizes the dependence of social systems on ecological systems (for example, rural areas in which the local economic structure has a single base such as agriculture, forestry, fisheries or mineral resources). On the other hand, we have the resilience approach focused on institutions or organizations (O'Riordan et al. 1998), in which resilience is dependent mainly on the institutional and organizational environment that characterizes the social system under analysis.

Certainly this institutional environment largely determines the system of support and its efficiency in the context of the social system. But it also determines the shape and effectiveness of external connections and external support systems.

In general, as highlighted in the Weberian institutionalist tradition, institutions and institutional environments are considered a strategic factor for growth and economic development, at both the macro scale (states, regions) and micro scale (communities) (Zysman 1994, Williamson 1994, Scott 2001, Nee 2003, Terluin

2003). They are thus also strategic for organizations operating at the local scale (but interacting from micro to macro level through bottom-up development initiatives, as noted by Woolcock 1998), including here companies and business networks (Ireland 1990).

In this approach, closely associated with the institutional environment, there is a second element that is also of key importance; the social capital present in that community, region or social system. In fact, the sustainability of social systems is based on strategies that include key issues such as institutional legitimacy, the importance of local governance, level of social relationships and social cohesion, local cooperation between actors, and so on (Shucksmith 2000, Lee et al. 2005) and, in general, a broad and solid base of different types of social capital (Farr 2004).

The accumulation of social capital is a necessary but not sufficient condition for a high level of social resilience and, therefore, for the presence of effective development processes. As noted by Woolcock (1998), in disadvantaged communities (or regions) the initial benefits of a high availability of social capital should be completed over time with extensive extra-community (regional) linkages. Excess or deficiency in either of these dimensions of social capital (internal or external) can block improvements at the level of social resilience and thereby slow down or even stop economic development. But along with the importance of internal social relations and local integration processes (as source of social capital), highlighted by Granovetter (1985) (who says that economic behavior and actions are deeply rooted in social relations) and Woolcock, we must also emphasize the importance of the external dimension of the relationships, because the empowerment of groups, communities or disadvantaged areas is not sufficient in itself, and we need to move towards resource management (and control), which requires a high level of interaction with external agencies and stakeholders (Mohan and Mohan 2002).

Within this social system, and with regard to our research, there is an element in rural communities that seems to us to be fundamental: a consolidated and strong business community. Furthermore, within this are two aspects of strategic importance; the level of entrepreneurship, and its internal and external networking. The main focus of our research is related to business networks within this context of the vulnerability of disadvantaged rural areas (Esparcia 2010). Business networks are one element closely connected with local social capital and institutional environment in which entrepreneurs have to operate. In this sense, (considering that multifunctionality has become one of the most useful ways to deal with the economic, and therefore also social vulnerability of disadvantaged rural areas), the greater the strength of local business (and therefore also the business networks), the greater their contribution to the social resilience of communities and rural areas in general.

Before addressing the analysis of business networks in a case study of disadvantaged rural areas, we provide in the following section an introduction to

the institutional environment in which entrepreneurs have to operate in these rural areas, in the region of Valencia (Spain).

Institutional Environment for Rural Development and Entrepreneurship²

The Region of Valencia

According to the rules of the Structural Funds of the European Union, the Region of Valencia (NUT 2) belongs to objective 'Regional competitiveness and employment' (phasing-in). It comprises three provinces (NUTS 3), some of which are considered rural. If we use the classification criteria of the OECD, the area classified as rural is approximately 75 per cent, with just over 10 per cent of the population, and a density around 30 inhabitants per square kilometer. If we use more restricted criteria, disadvantaged rural areas account for just over 40 per cent of the territory but house slightly less than 5 per cent of the region's population, with a density somewhat lower than 15 inhabitants per square kilometer (Espania and Noguera 2001, Generalitat Valenciana 2008). We also have the reference of the Law of Sustainable Rural Development and Sustainable Development Programme, however, which defines rural municipalities as those with fewer than 30,000 inhabitants and a density below 100 inhabitants per square kilometer, which means that the surface area considered as rural in the region of Valencia is 75 per cent. In turn, considering other additional criteria such as demographic trends, the importance of the active population in the primary sector, proximity to urban centers and the degree of territorial organization, we reach a system which classifies three types of areas (Table 13.1). On one hand, disadvantaged rural areas thus comprise one third of the territory (half of the territory in the country as a whole), but they have a very low population density. On the other hand, from a global perspective, GDP per capita in the region is 89 per cent of the Spanish average and 85 per cent of the EU average, although it is clear that in disadvantaged rural areas there are far greater imbalances.

Table 13.1 Demographic distribution and density of population in rural areas (Region of Valencia-Spain)

	Deprived Rural			Intermediate Rural			Periurban Rural			Total Rural Areas		
	% Inhab.	% Territ.	inh./sq.km.	% Inhab.	% Territ.	inh./sq.km.	% Inhab.	% Territ.	inh./sq.km.	% Inhab.	% Territ.	inh./sq.km.
Reg. of Valencia	1,4%	33%	8,8	1,2%	4,6%	56,6	15%	37%	88,8	17,6%	74,6%	51,2
Spain	7,0%	50%	11,8	12,0%	27%	39,5	5,0%	7,0%	61,3	24,0%	84,0%	24,8

Source: National Statistics Institute (Spain) (2011) and Instituto Valenciano de Estadística (2011).

2 For a global view of the administrative structures in Spain see Garrido et al. 2002.

Institutional Environment: Institutions, Policies and Programmes Supporting Entrepreneurship in Rural Areas

In addition to the traditional administrative structures, focusing on bureaucratic issues, entrepreneurs have traditionally had little access to support structures aimed at promoting productive activities and entrepreneurship. However, in the last two to three decades, and in a context of important changes in rural Spain (Pérez-Yruela 1995, Moyano 2000, Garrido et al. 2002), these structures have been developed significantly, in parallel with policies and initiatives from various public administrations which have focused mainly on promoting economic development in general, and entrepreneurship in particular (Méndez 1994, 2000). In the following, we give a brief review of the institutional structure as well as the main policies and programs aimed at that goal.

Among the general structure of business support we can emphasize, first, chambers of commerce and industry and, second, the Valencian Institute for Small and Medium Enterprises (IMPIVA).

1. The chambers of commerce and industry organizations are present throughout the Spanish territory, but with an operating structure at provincial level. The provincial chamber membership is compulsory for all business and entrepreneurs, but a series of legal reforms undertaken in late 2010 moves towards making the membership voluntary. The chambers are designed as tools to serve the business community, and offer advice to entrepreneurs on business start-ups (single business window), direct support, and bureaucratic issues. They also offer training programs in the dominant sectors in each area, focusing on what is necessary for business training.
2. The Institute for Small and Medium Industry of the Generalitat Valenciana (IMPIVA) was created in 1984 by the Regional Government, and has by now become a model instrument supporting the creation and performance of small and medium enterprises (Holmström 2006). Its main role is the promotion of innovation in a variety of fields such as technology, creation of businesses, design, environmental quality, organization and management, training and technical business cooperation. In fact, IMPIVA promotes and supports a network of technical support services for small and medium enterprises. This includes an effective network of Technological Institutes which provide assistance, such as the network of European Business Innovation Centres (BICs), supporting the creation of innovative business projects. The IMPIVA also collaborates with business associations in developing strategic actions in each sector, with results and business management capacities transferred from public and private research centres. It also facilitates the access of small and medium size companies to a set of programs and services.

In addition to these structures, two more tools directly contribute to the promotion of economic activities in general, and business in particular in rural areas: the network of local development agencies and the (Leader approach) local action groups.

The networks of local development agencies are based on the high decentralization of jurisdiction in the promotion of economic activity, training policies and workplace integration. In Valencia this network has the following characteristics:

- Its territorial scope is usually the municipality. Currently on the increase, however, is the number of supra municipal organizations (such as associations) with units dedicated to local development, or at least one or more agents for the promotion of employment and local development (AELD). Provincial governments also have units of local development, mainly with an advisory role to the municipalities and with provincial-level initiatives.
- The local development agencies often have only one employee, but despite the significant growth in the number of local development agencies in recent years, many rural municipalities in Valencia do not yet have an AELD.
- Agencies often rely structurally and functionally on the municipalities, and frequently the offices are joined to municipal administrative or bureaucratic offices. This causes the public to identify the agencies, wrongly, as additional administrative units of the council.
- The functions of AELDs are characterized by a lack of stability and sometimes even precariousness. Employees depend mainly on European funds and grants from regional governments. Rarely, and only in towns and major cities, their salary comes from the municipal budget.
- The roles of AELDs have been characterized for years by uncertainty, a result of the ignorance of city officials themselves about the potential of these professionals. This notwithstanding, AELDs are playing an increasingly important role in the management structures of policies promoting employability and the creation and consolidation of companies.
- The scope of the agencies' work is developed around two main pathways; promotion of employment-workplace integration (mainly through training activities for unemployed and other target groups), and business creation.
- Regional governments promote and fund training for the unemployed and other groups, so most of the work of the AELD is aimed at the bureaucratic preparation and management of such regional policies in their respective municipalities. This reduces, sometimes significantly, the real opportunities to develop effectively the objective of promoting entrepreneurship, and especially the performing of a medium and long term strategic design and implementation of actions necessary to advance local development.

For their part, Local Action Groups (LAGs), Leader and PRODER programs,³ have had a significant presence in rural areas, and among their roles is the promotion of economic activity and entrepreneurship. Certainly since its inception, LAGs has developed the functions of local development agencies, and even the AELDs have joined LAG staff. However, during the period 2007–2013, while in the rest of the country LAGs were strengthening their technical teams, in the region of Valencia LAGs were eliminated very concretely when their functions were centralized in the regional government staff (with a highly bureaucratic orientation and with no real presence or experience in the field). As a result, the efforts from the past 15 years, with more and more trained and experienced technical staff which has been closely linked to the local society and local economy, have been wasted. Rural areas have lost human capital that had become a reference for a large number of rural entrepreneurs, and had come to be essential in the promotion of economic activity and entrepreneurship in rural areas. We still do not have a convincing explanation for such an irrational decision from the regional government of Valencia.

We should also mention business and merchants' associations, which constitute an important network within the business support structures. In the region of Valencia there are over 40 associations of this type; some are general (including all business sectors, and whose scope is the entire region, such as the Confederation of Business Organizations of the region of Valencia), while others have a sectoral character (Textile Business Association of the Region of Valencia). This presence in rural areas is highly variable, depending on the sector.

Finally we have associations at local or sub-regional level, which may refer to a sector (Vilafranca Area Association of Commerce, Association of sausage artisans of Segorbe, Association of small businesses in Ayora, Association of the Alto Palencia retailers, and so on), or have a territorial nature, encompassing all sectors of business in that territory (Federation of Entrepreneurs of Alto Palancia, Federation of Entrepreneurs of Vall d'Albaida, and so on) (Buciega, Esparcia and Ferrer 2010).

Along with these organizational structures, Spanish rural areas have other policy instruments for development.

The most important are the Rural Development Program for each of the Spanish regions (2007–2013), which include the Community strategic guidelines and also incorporate various community initiatives, national and regional efforts to promote economic development in rural areas. Of the four areas that comprise the Rural Development Programs, non-agricultural rural entrepreneurs are addressed by measures to diversify the rural economy (Axis 3), using the Leader approach (Axis 4). In this sense a specific line in the creation and development of micro enterprises (fewer than 10 employees and up to two million Euros annual turnover) is provided, with preference given to those businesses focused on the

3 PRODER is the twin of the Leader national development program, Program for the Development and Diversification of Rural Areas, mainly concentrated in intermediate rural areas (Garrido et al. 2002, Esparcia 2006).

conservation and restoration of the landscape, and various professional services (plumbing, electricity, architecture, and so on). Another specific support effort is directed towards the promotion of tourism, mainly tourist service companies; here funding varies between 20 and 40 per cent depending on the type of company, the year and the location.

Another policy tool that can benefit the entrepreneurs is formed by the regional incentives (referred to by the ERDF). The whole territory of the region, with the exception of the regional capital, falls within the area of economic promotion. The main objectives of the incentive system are to correct regional imbalances in terms of income and unemployment; to promote endogenous economic development in the region (notably through the modernization of small and medium businesses); to promote the development of the corporate structure by introducing innovative technologies; and to promote the integrated development of the productive sectors (through more and better integration between production and marketing). The rates of assistance may vary between 10 and 30 per cent of the investment made by the company. However there is a minimum investment of EUR 0.6 million (being 30 per cent of the investment cash flow) and a requirement for the creation of new jobs. The sectors are diverse, but those preferred are the processing industry, mining and quarrying, food production and various forms of tourist accommodation. Regional incentives are complemented by other incentives, which require a minimum investment of EUR 6 million.

Finally, Spain is beginning to develop a new framework for intervention in local development in rural areas, under the Law of Sustainable Rural Development (2007), through the Sustainable Rural Development Program SRDP (2010–2014). This program includes the development of Rural Area Plans, including a set of actions necessary to meet the economic, social and environmental objectives referred to in the Law and SRDP. The novelty of this instrument is that it involves an integrated approach to territorial development in rural areas, which obviously goes far beyond the Rural Development Program and Leader (since it includes measures relating to infrastructure, equipment and utilities, agriculture land, public services, and so on), although it participates (at least in its design and objectives) in the territorial approach. From this point of view Rural Area Plans are instruments for the coordination of actions of different government departments and sectors in each rural area. Concerning entrepreneurship, the first out of the five strategic areas focus on the promotion of economic activity and employment in rural areas, including better conditions for the actions that take place especially in priority rural areas.⁴

4 The SRDP defines three major types of rural area for action: the revitalization of rural areas (disadvantaged), intermediate, and peri-rural areas is prioritized. In the circumstances referred to, there exist three levels of priority, for the highest priority is almost always on rural areas in need of revitalization. For the remaining areas the only priorities are for cases in which there is a high percentage of municipal land with a surface in the Natura 2000 Network.

A number of measures are aimed at economic diversification, focusing particularly around the tourist sector (support plans for tourism competitiveness, modernization of tourism infrastructure, small and medium tourism enterprises, tourist products in natural areas, designations of origin of food products, and so on); improving trade competitiveness; development, diversification and consolidation of companies (training for better business management skills, promotion, adaptation of facilities and promotion of co-clusters systems and business); the introduction of integrated management systems in companies based on criteria of quality and environment (facing their modernization); specific support to LAG for territorial or transnational cooperation; promotion of employment and self-employment; consolidation of productive sectors (with particular emphasis on emerging industries and entrepreneurship), and so on. All these measures have to be included in the area plans, which constitute the basis upon which other measures are conducted. And now the various regional administrations are developing or launching their area plans.

Analysis of the Role Played by Organizations and Policies Supporting Entrepreneurship in Rural Areas

In the preceding paragraphs we have seen that the structure of organizations and business support policies are usually, and in theory, very important. Some are general and others are more focused on rural areas. The first issue worth mentioning is that rural entrepreneurs often have little information on the structure of institutions, policies and tools in place to support their activity. From this stems the key importance of the networks of information and advice, more so for certain entrepreneurs who often have a low level of training. In spite of this structure of institutions and policies for the promotion of economic activity in general, and the support of business activities in particular, rural entrepreneurs tend to highlight the inadequacy of these instruments for their specific needs. In addition, they point out that they continue to have major difficulties in accessing the services and measures listed in the various business support policies, and economic promotion. Here we see the main advantages and disadvantages in each of the structures and policies outlined above:

1. Chambers of Commerce and Industry, and Institute for Small and Medium Enterprises of Valencia. These institutions are primarily aimed at improving the competitiveness of companies in process and product innovations. However, in rural areas, innovation, and achieving significant gains in competitiveness, is far from the scale of the work done, as people are often working with highly standardized products which have a reduced scope for the introduction of innovations. Therefore, rural entrepreneurs reported that micro-enterprises (predominating in rural areas) are not given preferential attention by these institutions, partly because the scale of production and

orientation of the actions does not meet the minimum requirements for obtaining assistance from these institutions.

2. Network of local development agencies. These structures are indeed playing an important role because of their proximity to the territory and local entrepreneurship. There are two factors that limit greater effectiveness in supporting business initiatives. First, the network of local development agencies is poorly implemented in disadvantaged rural areas; and secondly, when present its work is often limited to informing employers and, where appropriate, helping to arrange grants or support initiatives. In any case local development agencies tend to be more focused on the promotion of training and workplace integration than business performance.
3. Local Action Groups (LAGs) and the Rural Development Program. There is no doubt of the effectiveness of the LAGs in the promotion of economic initiatives and offering support to entrepreneurs. But it is also known that the PRODER and Leader programs bear constraints on the type and scale of the initiatives that can be supported (Garrido et al. 2002). In interviews, entrepreneurs and rural entrepreneurs highlight the great difficulties that these programs face, though they could be an important source of encouragement and support, especially those related to industrial sectors. Among the difficulties highlighted were the problems of eligibility for their initiatives, the comparatively high requirement for innovation (when they have sectors or products which are not specifically innovative), and the high cost (in terms of management) involved in the preparation of applications, considering the limited extent of support they could receive. A different case is that of trade and tourism initiatives, in which Leader programs have been far more relevant. In any case, in the context of the Rural Development Program which was begun in 2007, the virtual disappearance of the technical teams of the LAGs in the rural areas in the region of Valencia, in addition to the preferential orientation toward actions that focus on equity, quality of life and environment, have meant that these programs have contributed little to entrepreneurs and businessmen.
4. Business Associations. Both regional sectoral and territorial structures generally tend to be more present in urban-industrial and intermediate areas, while their presence in disadvantaged rural areas is scarce and focuses on the retail sector (local associations, usually unconsolidated or with limited strength). Also, the high degree of fragmentation and dispersal of businesses in rural areas makes the launch of effective cooperation mechanisms even more difficult. Business associations are generally aimed at providing specific services to companies, but to date, and with few exceptions, they have not resulted in significant cooperative movements between them (the exceptions are reduced to some local business associations and geographical areas).

5. Regional Incentives. These form a very important tool to support business initiatives. However, their relevance to the situation and needs of entrepreneurs and rural entrepreneurs is very low, due to the high minimum investment required. The result is that many rural businesses cannot access this support system (which is almost unknown to rural entrepreneurs), so it tends to remain focused on urban-industrial areas.
6. Rural Area Plans (Sustainable Rural Development Program). This instrument was approved in 2010, and in fact the Area Plans are being designed or developed at present. Therefore, there is no sufficient perspective to assess the role that these Plans may have in promoting economic development and entrepreneurship in their respective areas. In any case, available information related to the region of Valencia shows that the design is far from the Leader approach, being closer to a highly bureaucratic management in the hands of regional government.

Given the above, and as highlighted in most of the interviews, entrepreneurs and rural entrepreneurs feel relatively low satisfaction with public structures and support systems. The entrepreneurs believe that care is insufficient and often inappropriate to their needs. And this is added to the major difficulties they face as rural entrepreneurs in order to 'survive', consisting mainly of small companies with small production scales, often within local markets (or regional, in some cases). And the conclusion is clear: in the absence (or inadequacy) of external support mechanisms, improvements in competitiveness, and maintenance and consolidation possibilities, the enterprises rely only on basic business strategies.

In this chapter we do not discuss the vertical integration strategies adopted by some companies because it is not a generalized process, nor even important among rural microenterprises. We analyze and focus on joint strategies through networks and cooperation mechanisms, usually informal, and the different forms they take in disadvantaged rural areas in the region of Valencia. However, in the next section we briefly introduce the theoretical and conceptual approach in which the work is situated.

Conceptual Approach. Endogenous Development, Rural Development and Business Networks

From Local (Endogenous) Development to (Business) Networks

Traditionally, business support policies, when they have existed, have been designed from top-down approaches to economic growth. In the last two or three decades, approaches focused on economic development, and sometimes bottom-up perspectives, have begun to be considered, but they still play a minor role. In the Spanish regions and disadvantaged areas, exogenous development plans have been largely absent or had very limited and local effects (Cuadrado Roura

1981). Only recently, in the context of endogenous development processes, has the strategic importance of local business begun to be considered (Vázquez Barquero 1993) relevant to the majority of local industrialization processes in rural areas. The importance of endogenous development was such that it attracted even actors who had traditionally worked from exogenous and centralist approaches (top-down). However, we can say that often the confidence or participation in endogenous approaches was more theoretical than real, and was largely the consequence of the fact that certain public policies began to acquire endogenous development approaches.

But endogenous development, despite the many virtues and novelty on its application in disadvantaged regions, also has some weaknesses (Esparcia 2000, Esparcia et al. 2000, Esparcia et al. 2001). We are going to note just three of these. The first relates to participatory processes, which were among the strengths of the endogenous approach. Often these processes have come to be controlled by certain local actors, so that the local focus of development has become, or has been used as, an instrument of power in the hands of dominant groups and key stakeholders. In other cases they have been rather weak mechanisms for the promotion of effective participation and a robust relationship between the public and key stakeholders. The result is that participatory processes have had or are having a limited impact.

Secondly, with regard to the diversification of the local economy (another key element in this approach), the results being generated are not as significant as expected (though perhaps it is too early to make accurate assessments, given that these are long-term processes that have only been implemented over one or two decades).

Finally, there is a third explanation for some of the deficiencies in rural development policies, focused on the approach itself and the way in which it is translated into practice. It is noted that the local approach (based on the role of local actors and production diversification) does not provide enough critical elements, which are fundamental in the analysis of processes of socio-economic transformation and change in local communities. And here emerges the networks approach. For some authors this represents a new paradigm or a third way (Murdoch 2000), since from the network approach it is possible to better explain many processes of socio-economic change, even in rural areas. In any case, whether a third alternative or complementary explanatory approach, its utility in analyzing the dynamics of organizations, companies and different models of business organization is evident.

In this chapter we have not addressed issues more or less directly related to enterprise networks, which have been analyzed for many years as the issue of networks as a structuring element of social groups (Urry 2000, Castells 2000); the pioneering contributions on the systems of organization of production and post-Fordism evolution from corporate networks (Scott and Storper 1986, Storper and Scott 1989, Wood 1991, Yeung 1994a, Murdoch 1995); the criticism of flexible specialization (Gertler 1998, Amin 1989, Harvey and Scott 1989, Amin

and Robins 1990, Amin and Thrift 1992, Yeung 1994a); or contributions from regulation perspectives and the strong criticism they have also received (Lipietz 1986, Harvey 1989, Yeung 1994a).

In recent decades the network perspective has been shaped into a conceptual theoretical framework useful for the analysis of business structure and relationships. It can be divided into five major categories according to input. First, those related to the local milieu, industrial districts, and their relationship to external networks (Aydalot 1986, Camagni 1991, 1992, Vázquez Barquero 2000). Second, we have the dynamic of the networks, which is another important area of analysis. Third, we have the spatial organization of the networks, particularly important in territorial processes (Cooke and Morgan 1993, Kirat and Lung 1999). Fourth, we have the inclusion of business networks in their environment, highlighting the cultural, social and institutional (Fuà 1983, Whitley 1992, Yeung 1994b, 1994c, Johanninsson 1995, Vázquez Barquero 1988). And fifth, we have the networks as a way of organizing the network of companies, including here the traditional analysis of the business organization through the market (competition between companies) or by vertical functional or vertical formal integration (Williamson 1975, Cooke and Morgan 1993, Murdoch 2000, Bennis 2000).

We focus our attention on business flows, which are the most dynamic element in networks (Camagni 1992, Cooke and Morgan 1993). A company must have different flows with other companies or organizations, and although some of these form part of the same structure, others will be competitive, and cooperation agreements will be maintained with other companies. Similarly, with certain organizations, such as institutions, the same contacts will remain with relation to various regulatory issues. To try to systematize all these possible relationships, or different dimensions of the set of relations of a company, we can turn to a typology of networks resulting from the business organization, inter, intra and external business networks, and analyze their relationships with rural development.

Business Networks and Rural Development

To analyze business networks and their contribution to rural development we have to consider at least two main aspects in relation to companies, the kinds of networks and the combination of strategies (cooperation or competition) (Figure 13.1).

As we said a reasonably established typology of relationships between companies divides them into three main types, inter-, intra- and external-territorial business networks. The first are established between independent companies throughout the production process (and can range from cooperation agreements to specific relations of competition). The intra-firm networks are primarily between vertically or horizontally integrated companies (or within large corporations). The third type refers to a company's external relations.⁵

⁵ Thereafter, the concept of external networks includes the territorial dimension and refers mainly to the local and sub-regional environment of companies.

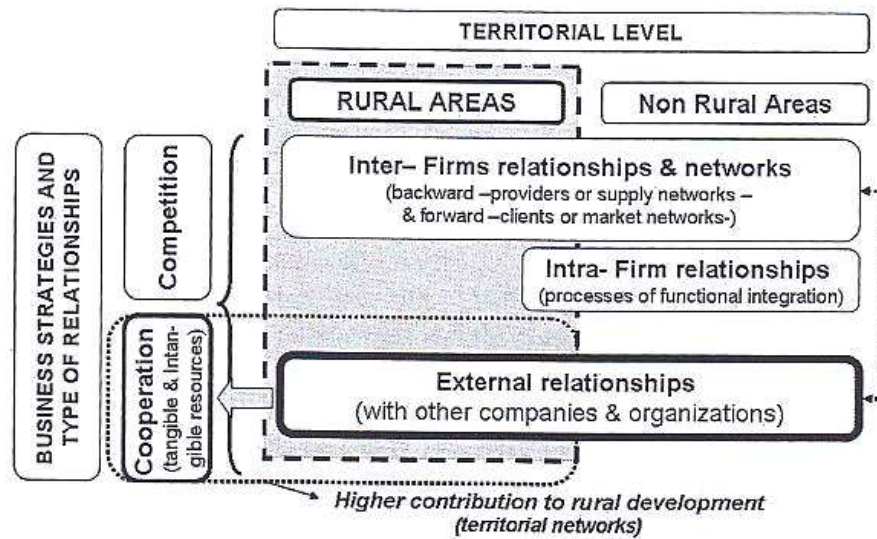


Figure 13.1 Theoretical model of business relationships in the context of rural development

Source: Author.

Inter business networks with suppliers and customers (backward and forward) are needed for the economic system and the daily operation of enterprises. A part of external-territorial relations are also needed for economic activity. However, although not all relationships and external-territorial networks are strictly necessary, an important part of the business potential would depend precisely on these networks and the established strategic alliances, both sector-type (mainly inter) as external-territorial relations with other companies and institutions.

External business relationships have been less discussed in the literature than inter- and intra-business networks, at least in terms of explaining business dynamics and/or matters relating to business organization. This contrasts with the importance that these relationships can have (for example in the context of territorial and rural development), with very clear direct and indirect benefits. This strategic importance comes up taking into account that external and territorial relationships have also a social dimension, beside the classical economic dimension. Therefore external relationships include those established with other companies (for example service providers) but also with other organizations in the local environment (we associate the concept of 'territorial' to the external networks for this reason), including here public institutions. Although we could also include inter-company relations as a form of external relations, in the context of local and rural development we mainly use the concept to refer to relationships with local companies and organizations which are geographically close.

Business relationships do not always imply the exchange of goods and services. Beside the classical economic dimension, business relationships have also a social dimension, and often they constitute power relations that show the

positioning of the company in its not just economic but also social and even political local environment (an important part of those external relationships are with public authorities). In this sense, a feature worth noting about external business relationships is the pursuit of social or political standing (Hess 2004). It is clear that frequently, businesses are not merely in pursuit of economic goals. The world of local politics has many examples of entrepreneurs who have used their business, and external-territorial business relationships, as a starting point to enter actively into politics. Thus for example the fact of sponsoring certain events may respond to a marketing strategy, but also the desire for political and social legitimacy. For a set of reasons (as the economic disadvantages of rural businesses due to the distance to major markets or the higher cost of some inputs, or the tendency to greater integration of local entrepreneurs in social life), the social dimension of external-territorial business relationships are specially important for rural development and for rural companies.

The balance between strategies of cooperation and competition is another important aspect present in all business relationships (Schein 1999), but of a greater importance when we refer to a given territory or region and to the external relationships of the companies located in it. In theory, relationships tend to be competitive with companies that produce or offer the same or very similar types of products or services (taking advantage of its competitive edge and reducing the risks arising from other competitors). Meanwhile cooperation tends to occur when firms can establish complementarities between their products, services or even commercial strategies. Companies or organizations must define their areas of cooperation (for example with which companies they should maintain cooperative relations, and what type of relations), and disclose their fields of competence. But companies can maintain or combine these two main types of strategies, competition and cooperation (Luna 1997). In this context, business networks tend to arise primarily in a framework of cooperation strategies (but also may result from competition). In any case, whatever the combination of competition or cooperation strategies, companies can obviously establish the three main types of relationships already mentioned, which may result in relatively stable networks.

We may also include in this analysis the role of competitive advantages (taking into account tangible and intangible resources). The competitive advantages approach is also complementary to the relationship between companies (Porter 1996, 1998), of special interest from a territorial perspective. Leadership on costs, focalization and differentiation are three sources of competitive advantages on which business strategies may be based. The last one can lead to networking through cooperation using tangible (linked to the classical factors, land, work and capital) and intangible resources (skills and mainly explicit and tacit knowledge). In this way, we may keep the concepts of tangible and intangible to also refer to relationships associated with the cooperation between companies sharing those factors. Thus, tangible relationships occur when two or more companies cooperate to share common factors, so that they can reduce costs (buyers, suppliers, technologies, common channels, and so on) improving as a result their

own competitive advantages. Intangible interrelationships are those that lead to competitive advantages through the transfer of skills, abilities and knowledge, for example on how to lead, manage or make decisions. Both of them could be in the field of business relations, but intangible relationships are suitable for stable networks with other organizations (from knowledge centers to local or regional institutions involved in support public policies).

In rural areas, obviously all three types of relationships and networks are present, although in the most disadvantaged rural areas the presence of intra business (functionally related companies or other companies as part of corporations) is logically lower. The business dynamics render absolutely necessary the presence of inter-business relations and networks wherever the companies are located. However, the rural environment may limit the number of suppliers (due to the higher costs involved in reaching some remote rural areas), and in some cases for rural businesses the relationship with suppliers can be almost of a dependent nature. Similarly, the companies may be conditioned by a small number of customers, which often requires them to make an extra effort in their delivery mechanisms (thus raising costs). For these reasons, from the perspective of rural development, external relations and networks are the most strategic, usually established at the local scale and between local and regional scales. The rural localization lends specific characteristics to the relationships between firms, such as greater distance and less accessibility to suppliers and markets, or low density of customers and suppliers. And this fact has consequences even in inter-business relations, both backward (from a company to its suppliers) and forward (from that company to its clients, whether or not these are end users of their products or services).

In the rural environments, cooperation and competition strategies, as well as the use of tangible and intangible resources, are present. However, analyzing the development of disadvantaged rural areas, the greatest potential lies precisely in the combination of cooperative strategies in the territory (seeking and valuing strategic partnerships and complementarities between enterprises of the territory), relying on networks of external relationships with the economic but also social and institutional local environment.

Therefore the contribution to rural development will be greater if the relationships derive from solid networks and stable partnerships within the territory. This occurs if the external networks of cooperation, both tangible and intangible, are especially strong, involving companies but also local institutions. Such networks of cooperative relations, but also of competition, are especially important as a process of adaptation of rural enterprises to a rapidly changing environment in which competition between producers is increasingly high.

But to meet the handicaps of rurality, such as possible dependence and rising costs, external networking at the local and regional scale acquires a strategic nature, particularly within the institutional environment. Thus the strength of the rural business environment depends largely on these external and horizontal business networks at the local and regional level, under cooperation strategies and using tangible but especially intangible resources and networks. But these networks also

have another added value. Certainly unlike the common inter-business networks, based mainly on competitive relationships, external local and regional business networks tend to have a greater cooperation component, which is what ultimately makes a region or rural area more or less competitive in the medium and long term. But despite this strategic importance of rural development, as discussed throughout the chapter, these networks, which have an almost voluntary character (not all of these types of relationship or network are always strictly necessary for the operation of the company), are less present in disadvantaged rural areas in Valencia and, in general, in such areas throughout Spain.

From Business Networks to Territorial And Social Networks in Rural Areas: Experiences from Rural Valencia (Spain)

As we have mentioned, many contributions stress the importance of the network approach in analyzing the new forms of inter-organization. Likewise, it is clear that in rural areas business has an important social and territorial dimension, beside the productive side. In this chapter we focus on the business-productive nature of networks, but with special attention to the territorial component (Buciega et al. 2010). We will also present some conclusions about the involvement of entrepreneurs in their social environment. The analysis of business networks has been structured, first, according to the major types of relationship that any company tends to have: inter- and external company relationships. To refer to the first of these we will use the concept of vertical networks in this chapter, as they are relationships established over the production process, with suppliers (backward oriented relationships) and with customers (forward or market oriented relationships). In the case of the external relationships, we refer to those established with other companies which are not directly involved in the production process (for example service providers); being external to the companies, they may be internal or external to the rural area. After this analysis we examine the nature of these relationship networks: their frequency over time, formal or informal character, direct or indirect type of relationship, and finally we will come back to the territorial aspect, because this is the most important from the perspective of rural development. Thus we will analyze whether networks were built and are operating in the rural area (local), or established with companies or institutions located outside the area.⁶ In our analysis the information is related to two main types of area; the disadvantaged and the intermediate rural areas.⁷ The information

6 By 'local' we refer not only to the municipal scale but also to the county scale, below the provincial or regional level. 'External' is used here with relation to the rural area, not to the companies.

7 We use as synonymous the terms 'deprived', 'disadvantaged' and 'backward' rural areas, which are those identified with the beneficiaries of the Leader Programs, while

comes from interviews with entrepreneurs (individual and focus groups) and local development agents in rural areas (Esparcia 2010).

Scope and Nature of Business Networks, Dimension Sector and its Vertical and Horizontal Links

The presence of networks in rural Valencia is generally speaking relatively high. The first criterion of analysis we have discussed is the importance of each of the three major types of business relationship networks (with suppliers, customers and others companies). Almost every respondent mentioned that in their respective business sector there are intense and different types of relationships, but that those related to suppliers and customers, which are imperative to the continuity of the production process, are predominant. Nevertheless, relationships with other companies tend to be weaker and become less present (Figure 13.2).

Indeed, in rural Valencia networks of business relationships have been developed and strengthened quite significantly in recent years. Perhaps for this reason, according to interviewed experts, the networks have almost the same presence in disadvantaged and intermediate rural areas. We might expect to find more developed and dense business networks in intermediate areas, but the generalization of a certain ‘sense of crisis’ in disadvantaged rural areas, in certain social sectors, has favored a positive attitude to the formal or informal organization

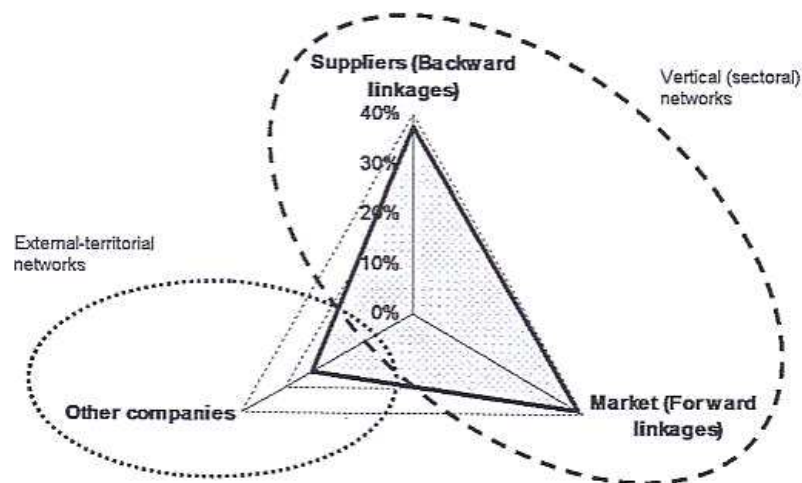


Figure 13.2 Importance of business networks in rural areas, according to their orientation, in Valencia

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

‘intermediate’ rural areas are identified with those beneficiaries of the Spanish national PRODER Program. The latter have higher socio-economic standards.

of network structures. Moreover we must not forget that business networks also have a social role, especially in these rural areas, as they constitute a factor of articulation of the local society (a society which has traditionally been structured around the farming system).

Therefore the importance of the three types of network does not differ significantly between intermediate and deprived rural areas. We can only highlight the slightly greater importance of provider networks and networks with other companies in disadvantaged areas, while there tend to be more important market-oriented networks in the intermediate rural areas.

So here we are dealing with behavior that is dominated by business criteria, resulting in a very similar importance given to backward and forward linkages. Secondly, and of rather less importance, are the links with other companies in the area. Therefore we may conclude that the territory (disadvantaged or intermediate rural area) does not introduce significant changes but that this is a behavior dominated by business or production criteria.

A second criterion we used when analyzing the networks was the differentiation of the geographical scope (local or external networks) and the nature of relationships (casual-systematic, direct, indirect, formal-informal). With regard to the geographical scope, networks are not purely local or extra-local, and indeed some operate at both scales, being part of the same system; it is not easy to determine which of these two fields dominates the other (Young 2010). In principle we would expect that areas with a low degree of openness tend to have stronger local networks. By contrast, extra-local networks tend to be strongest in those rural areas which are more dependent on markets, suppliers and external service companies.

Extra-local networks dominate in relation to local networks in deprived as well as intermediate rural areas. However, these extra-local networks are rather more important in the latter (Figure 13.3). Therefore, we conclude that the business system in deprived areas tend to have a lower degree of openness in relation to the intermediate areas. This could be a handicap for the economic development of deprived areas, as lower openness (through networks) can be an obstacle to greater and more effective integration of these areas into regional and national networks and markets.

But this result has another reading, in the sense that the relatively high weight of local networks in disadvantaged areas may be an element that, in certain cases, also contributes to their territorial cohesion, with a positive influence on well structured networks of a territorial nature and at the same time in structures of territorial cooperation.

We have also differentiated between occasional or systematic networks. The results show that systematic networks are predominant in both types of rural areas, a highly positive result since it constitutes a factor of stability for business. The formal or informal networks of relationships are another important issue, since largely territorial competitiveness is associated with the formalization and long-term sustainability of the networks. In this case the global results show that networks

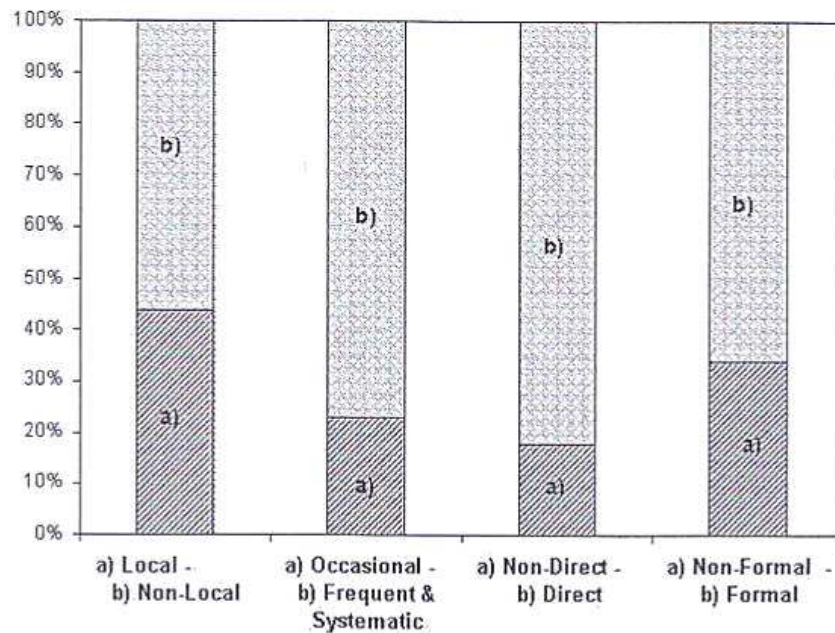


Figure 13.3 Characteristics of networks of relationships in rural Valencia

Source: Author (from interviews with experts, local development agents and rural entrepreneurs 2002–2003; 2010).

tend to have a high degree of formalization (especially in intermediate rural areas), this aspect being of strategic importance in the light of the sustainability of these rural areas. As is understood, in many rural areas with weak business structures, or even in non-rural areas in which systems of micro and small to medium enterprises predominate, non-formal networks used to be at least present, and at times were very strong (Camagni 1991). In the deprived rural areas non-formal networks are more present, and in the long term this may be an obstacle when it comes to consolidating structures of cooperation or just to implementing market expansion strategies.

Therefore, almost two thirds of the interviewed experts note that predominant relationships have a significant degree of formalization and provide an element of strength to the business structure of these rural areas. But although a part of the relationships are poorly formalized (concentrated in deprived rural areas), this element will not be highly problematic in the short-term and is only relevant to local or small and highly accessible markets.

Characterization of Business Networks: Supply and Market Networks

In the previous section we have seen the importance of business networks according to their sectoral orientation (providers, market-customers and other companies) as well as their different natures and scope (local-extra local, non frequent-

systematic, direct-indirect, formal-informal). The combination of both types of information offers enlightening and interesting results on the nature of business networks in rural areas of Valencia. Here we present some profiles resulting from these combinations (Figures 13.4–13.6). On the other hand, in Annex 1 we have a comparative analysis of the orientation of the different networks in disadvantaged and intermediate rural areas, taking into account some of the features noted above. This allows us to undertake a deeper characterization of the networks of productive relationships.

Supply Networks Previously it has been noted that suppliers are major elements in the establishment of business networks by rural entrepreneurs. The first element of the profile of supply networks is its systematic nature in all cases. In other types of business networks, and even social networks, rural entrepreneurs leave some room for non-systematic relationships (Figure 13.4). However, in the case of networks with providers, non-systematic relationships are uncommon, because non-systematic and unstable networks with providers would seriously compromise the daily performance and viability of the company. The systematic nature of supply networks is a prerequisite for productive activity itself, independently of the sector and type of rural area under discussion.

In second place of importance we have the mostly direct nature (without intermediaries) of these relationships between companies and their suppliers. This fact, which may seem to be more common in a relatively developed business

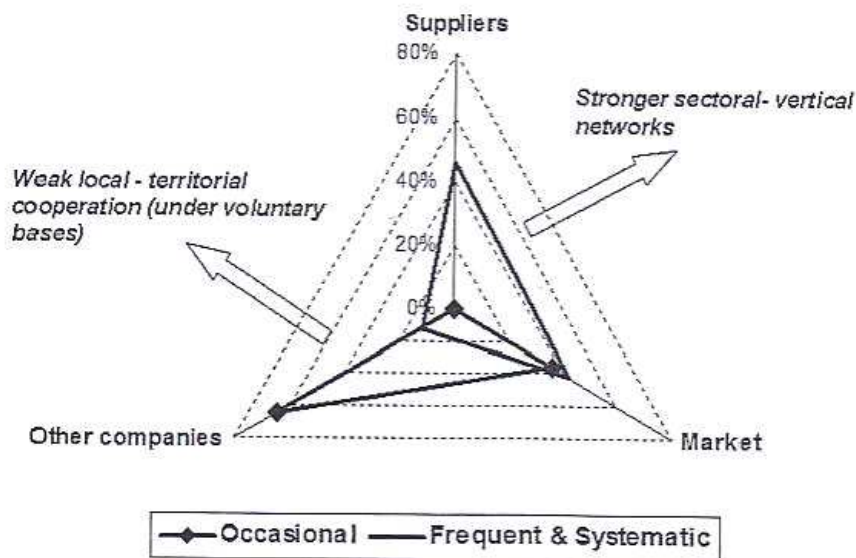


Figure 13.4 Orientation of networks with reference to the frequency of relations

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

environment, is less so in deprived rural areas, in which about a quarter of the experts and professionals of local development have indicated that indirect relationships were not only present, but often were more important even than the direct relationships.

The explanation is that these deprived or disadvantaged rural areas are as markets often too distant from the suppliers, needing the use of intermediaries. In the first moments, the maintenance or development of indirect networks can have a very positive effect, to the extent to which they can be almost the only way to keep the prices of inputs at reasonable levels. In fact, if those indirect networks were not present, the entrepreneur would perhaps be forced to go outside the area to find suppliers in order to obtain the necessary inputs. But this in turn would lead to increased costs that in some cases might endanger the viability of the business project.

The presence of non-direct relationships in rural companies can have positive effects (though less so than direct ones.) However, in the medium and long term, they may also have negative effects. Thus, the presence of local intermediaries may contribute to slow down, or even to stop, the inclusion of the entrepreneur in other external networks with direct suppliers. Thus through the weakening – or halt to further development – of direct relations with external suppliers, the added value of direct foreign networks, which among other benefits are real tools for openness and the inclusion of local business systems in regional, national or international markets, are lost.

Third in importance we have the formal character of the networks with suppliers (Figure 13.5). We might suppose that the entrepreneur is particularly interested in formalizing relations with suppliers, in order to ensure the relationship and the supply of inputs. However, this is not always true, since, for example for small family businesses, a change of supplier can lead to a significant cost saving. Thus, if alternative suppliers exist on the market, it may be in the interests of small companies to maintain a portion of their supply business network in the field of informal relationships.

In any case, these non-formal networks (which are reported by a quarter of respondents) respond to more than entrepreneurial strategies for ensuring a certain freedom to contact potential alternative providers. They form part of the relations' systematic characteristic in both small and micro-businesses in rural areas. The interviews highlight that the more closed the production system is, the greater weight informal relationships tend to have.

The extra-local character of supply networks is the fourth characteristic (Figure 13.6). Two thirds of the responses indicate that these networks are established primarily with foreign providers, and only one third indicates that suppliers have their origin mainly in the same county or municipality. The predominance of extra-local networks has two opposite interpretations. On the one hand, it can be analyzed from the perspective of the integration of local productive systems into external markets (Méndez 1994), so the greater the importance of these external networks, the greater the integration of local productive systems into external markets.

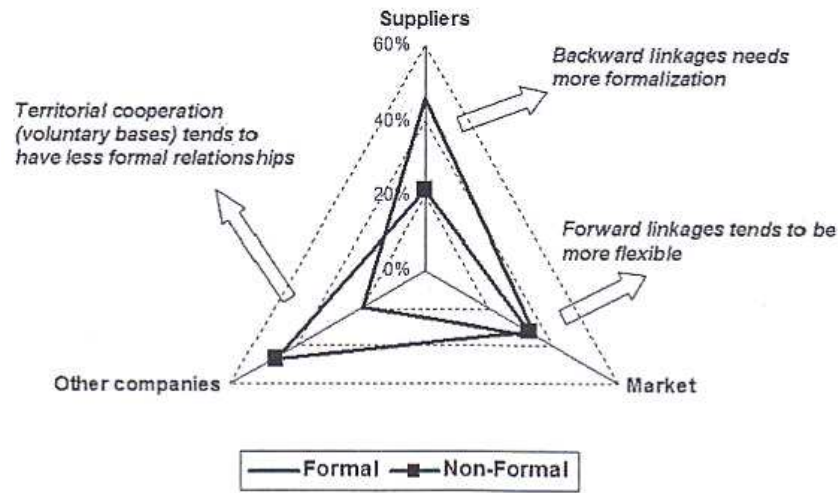


Figure 13.5 Orientation of networks in relation to their formal or non-formal nature

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

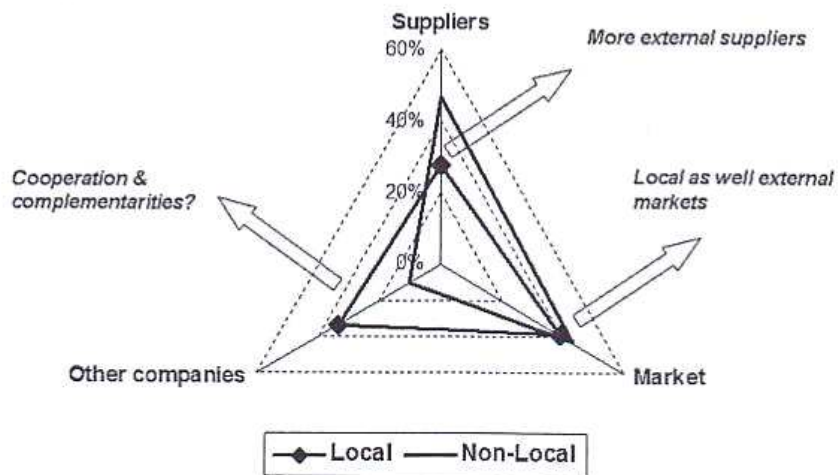


Figure 13.6 Orientation of networks in relation to their geographical orientation

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

In any case, and in conclusion, the results we have obtained in the interview sample shows that we are in a situation of relative equilibrium, with a tendency to external dependency somewhat higher in deprived rural areas, as seems logical. On the opposite side, intermediate rural areas are characterized by stronger local supply networks, as a result of further development of their productive systems and, as discussed below, their inter-business relationships.

Market Networks This type of network has, globally, an importance almost equal to those structured around providers. Market-oriented networks are necessary for the production function since entrepreneurs cannot take good decisions if they do not keep a close contact with their clients or consumers. It is clear, however, that by depending on factors such as competition in the market or its degree of stability, the relationship with client-consumers can be more comprehensive, frequent and direct. The type of productive sector concerned has also a great influence. For example, it is not of such critical importance to maintain direct contacts with clients in the case of rural tourism activity than it is in the textile industry. The latter would not only have direct contact with their buyers (probably shops or dealers), but this would have to be far more frequent, and the entrepreneur must seek and maintain the market through their networks with customers. Nevertheless, even in the case of rural tourism, networks must be robust with intermediaries and in any case, have a clear presence in the media as well as strategies that deliver the product to potential consumers. This sometimes means inclusion in a reservation centre, the maintenance of a good web site, or just the attraction of new customers through the publicity made by the clients themselves.

Taking into account the last comments, it is not surprising that the most prominent feature of these networks is their directness, an aspect on which most of those interviewed agree. The range would be relatively narrow for indirect relationships with customers (except in specific cases, as suggested above with reference to rural tourism). These trends are broadly valid for all rural areas, but there are nevertheless significant differences between intermediate and deprived rural areas.

The results show that the direct nature of market-oriented networks is almost complete in the case of deprived areas, yet it is significantly lower in the intermediate areas (in which networks with an indirect relationship to the market have significant importance). There are several reasons for this situation depending on first, the type of dominant sectors, and second the geographical market areas. We cannot forget that the interviewees may have had different views when evaluating the concept of the market network.

Starting with the latter aspect, the analysis of available information and the interviews, it can be shown that local development agents tend to refer to the final customers' networks, rather than networks of first clients, although these could be intermediaries. Thus, those sectors which produce for the final consumption or the final marketing stage would be characterized by a higher proportion of

direct networks. On the contrary, the weight of indirect networks tends to be higher in sectors where production is not intended for final consumption but the intermediate marketing stages or, where appropriate, other phases of the production or commercialization process.

This is what happens mostly in the intermediate rural areas, where the higher presence of industrial sectors and intermediate stages of the production process explains why those networks with customers (final customers, as generally understood from respondents) are not as direct. Similarly, in deprived rural areas, with a predominance of service activities, networking with end users tends to carry greater weight (Figure 13.7).

A second characteristic in market-oriented networks is the frequency of relationships and the stability of such networks (Figure 13.4). Frequent and consistent contacts with customers are seen as a factor in stability and therefore they contribute to the presence of companies in the market. But despite the main trend toward systematic relationships (respondents said ‘common’ or ‘very common’), one fifth of them highlighted the importance of non-systematic relationships, particularly in two situations. On the one hand, unusual relationships would be characteristic in sectors of companies in which there is a well defined, stable and secure market; those cases in which sales depend on a relatively low grade on close and highly frequent contacts with customers. On the other hand, such non-systematic relationships are also present at what it might be called the ‘margins’ of the market; that is to say, those market segments (and geographical areas) which have no preferential buyer relationship, due to their remoteness. This could happen

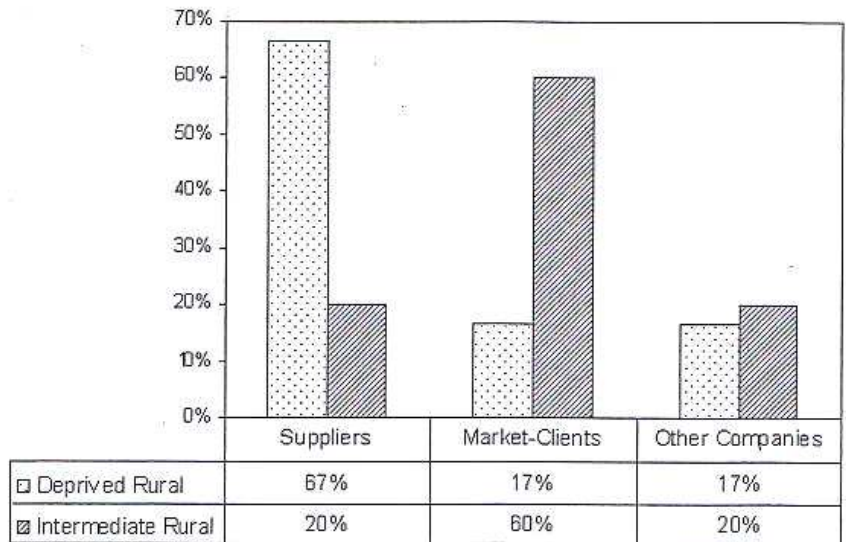


Figure 13.7 Orientation of non-direct networks in deprived and intermediate rural areas

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

because they are more integrated into networks of other competitors, or simply because the type of product being produced and sold has only a marginal interest to the customers with whom networks of relationships are thus less systematic.

The third characteristic is the degree of formalization of these networks (Figure 13.5). About two thirds of respondents stated that market-oriented networks tend to be relatively well formalized. This result is 15 per cent lower than in the case of supply networks, an amount which seems reasonable if we consider that, generally speaking, for the production process it tends to be more crucial to maintain formal relations with suppliers than with customers. In any case, the formalization of networks of relationships with customers is also a factor which contributes to the 'market stabilization' desired by entrepreneurs.

Differences between deprived and intermediate rural areas show that with the increase in factors such as density and complexity of the production environment, competition in the sector or area, and the degree of internationalization, entrepreneurs tend to ensure their market through the formalization of relations with their clients, among other mechanisms (Figures 13.8 and 13.9). For example, the manufacturing sectors (more predominant in intermediate rural areas), the activity of which involves intermediate stages in the production process, and even in its final marketing, are also subject to a increasing formalization in their relationships with clients or customers, unlike, for example, what we might see in the service sectors.

The last feature is the geographical scope of the market-oriented networks, which ultimately is an indicator of market area. The results are highly illuminating in the sense that although extra-local markets tend to be more important, the situation is very different depending on whether we are in intermediate areas or in deprived ones (Figures 13.8 and 13.9). From the interviews in intermediate rural areas, it has been revealed (two-thirds of respondents) that networks of relationships with clients or customers and, therefore, the market area, have a distinctly extra-local character.

This result is consistent with the greater degree of openness of companies in these areas, and this is in turn a result of their greater specialization and higher levels of competitiveness, among other factors. In deprived areas the local scope of networks with customers is comparatively more visible, which emphasizes the lesser independence of the firms in these areas with relation to the local markets.

The degree of local orientation to the markets does not always necessarily have to be negatively interpreted, to the extent that it would highlight a low degree of openness, and probably of overall competitiveness of economic sectors. This may be the situation for industrial activities in deprived areas, closely linked to the local markets (also due to difficulties with competing outside those local markets). However, the fact that in several intermediate rural areas local networks have been identified as highly important did not reveal that the local market dependence is not due to lack of external competitiveness. It is due rather to the strong comparative dynamism of that local market, which has developed relatively strong and stable inter-business networks, but also, and especially, it has developed

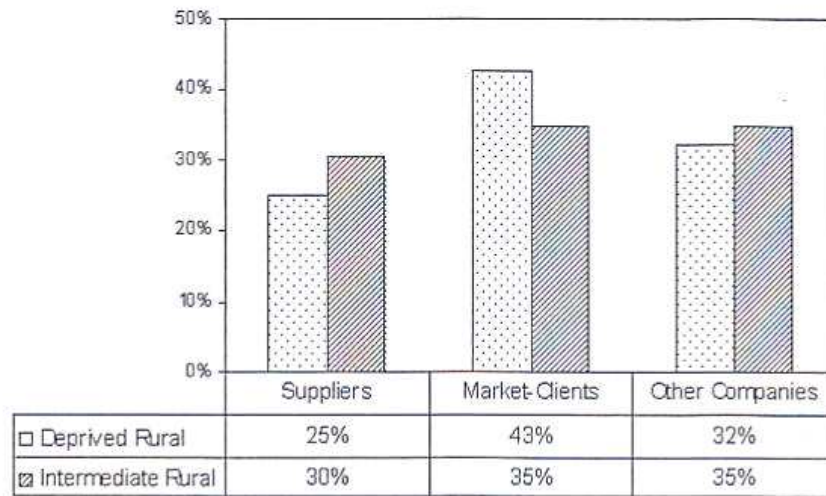


Figure 13.8 Orientation of local networks in deprived and intermediate rural areas

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

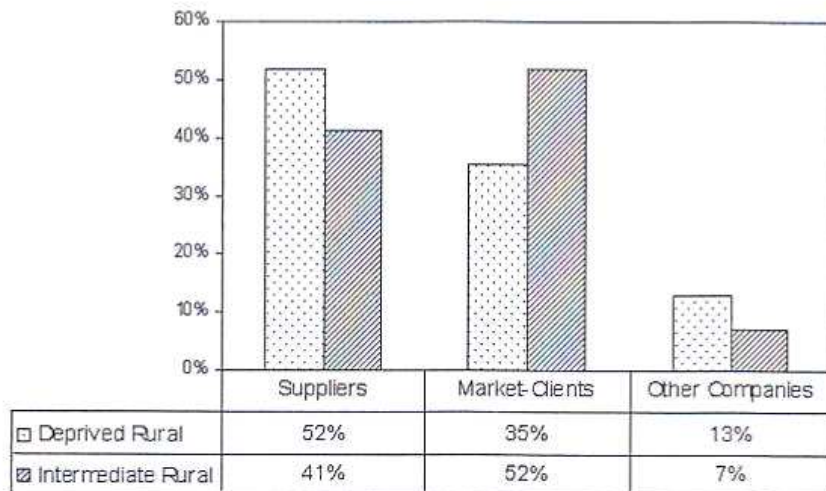


Figure 13.9 Orientation of external networks in deprived and intermediate rural areas

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

networks between companies specialized in different phases of production process. This happens, for example, in counties such as the *Vall d'Albaida* or *Hoya de Buñol*, in the province of Valencia, in which respondents indicated that the external networks with markets are also highly developed. This is therefore a clear indication that in these cases the importance of local networks is associated with the dynamism of the local productive system.

Other Networks: The Role of Territorial Networks in Rural Development

We already stressed the strategic importance of non vertical networks for rural development, especially those of a local character, with companies in the same territory (territorial networks). To a lesser extent, we may also refer to some networks of firms which may be in the same sector but from different areas (sectoral networks). These networks can be territorial and inter-firm (sectoral or vertical) at the same time, but in essence all these networks are different to vertical networks since here we have not backward (suppliers) or forward (market) relationships but mainly horizontal ones. In theory these territorial networks are not as necessary as vertical networks for the companies' operation. However, as a company moves part of its activity outside (for example, transport), or simply expands its production and/or marketing scope, it also increasingly needs these networks, and perhaps more and more those with a territorial character (which are strategic for rural development).

The participation of entrepreneurs in these networks is linked to the idea of their traditional (and partly topical or even exaggerated) individualism, at least in the region of Valencia (Esparcia 2010). But interviews with entrepreneurs and people in charge of business networks (sectoral or territorial networks) show that individualism is not so rooted in the medium-sized companies or in the many small businesses. However, it still remains very much within the micro-scale and is an important part of small businesses, located mainly in rural areas.

The importance of territorial relationships is significantly lower than in inter or vertical networks with customers and suppliers. This is due to the combination of individualism, still present in many micro-enterprises, and the fact that territorial relationships are not a part of the production and sales channel. But this weakness may also stem from additional reasons. First, it may be because in those areas where there is a high density of companies, the existence of strong networks with suppliers and customers replaced the need for cooperation within the sector (and even with other companies in the territory). In these cases territorial networks tend to focus primarily on service companies in the same or surrounding areas, but not so much on those of the same sector (we must not forget that the relationships between firms in the same sector tend to be more competitive than cooperative).

Second, the greatest weakness of these territorial networks is explained in the case of deprived rural areas by the low number of businesses in different sectors or activities (Buciega et al. 2010). As a result, because there are very few industrial or service companies in the same area, there is virtually no place for significant

territorial networks. Even in the current situation, with few companies, cooperative relationships tend to be low while individualism tends to be higher, as recognized by the entrepreneurs themselves.

There is a third important issue related to this lack or weakness of territorial networks. Entrepreneurs often view these kinds of relationships primarily with companies in their sector because there has been, for decades, a tendency to internalize some of the services, in an apparent attempt to reduce costs. Nevertheless this tendency is far from changing towards greater outsourcing, even in many small companies.

One aspect to be highlighted is that rural entrepreneurs tend to have very little account of territorial variables, which leads to the possibility of external networking whose common denominator is not the sector but the territory. This absence or very weak territorial cooperation between entrepreneurs occurs in deprived rural areas, and somewhat less in the intermediate zones. There are some cases, for example in the county *Valle del Palancia* (intermediate rural), in the province of *Castellón*, where our recent research highlights the strength of these territorial-based networks, and it is the entrepreneurs themselves who recognize the strategic importance of such networks. That is why the results show that traditionally, in deprived rural areas, networks tend to be external rather than local, while in the intermediate rural areas the highest firm density explains that the networks could and should have a more local character, which is in any case a positive element (Figures 13.8 and 13.9).

In this regard we should emphasize the interest for rural development of the increasing formal networking based on territorial cooperation (mainly at regional scale, and to a lesser extent the local one), although it still has limited quantitative importance. At the local scale the presence of these territorial networks is explained by the active involvement of local development agents, sometimes at municipal level, and others at supra-municipal or county level. It is also important that rural entrepreneurs are increasingly sharing the idea that the competitiveness of their companies is related to the global competitiveness of the territory in which they live (Leader European Observatory 1999). In this way it can mean an important contribution to rural development, the involvement of local development agents, as well as the dynamic and innovative attitude of those entrepreneurs.

The weakness of the economic structure in deprived rural areas also explains the smaller and weaker presence of territorial-based networks, at least with a formalized character. However, since the late 1990s some efforts have crystallized in the creation of formal networks, supported from or with the help of Leader Local Action Groups (Esparcia 2011). In any case, many entrepreneurs and local public officials recognize and agree that business territorial networks are one of the areas with the greatest potential development in terms of cooperation between rural entrepreneurs, despite their limited experience and presence, especially in deprived rural areas.

But we also have external non-territorial networks, those of sectoral character. Such networks tend to be a priority for entrepreneurs, because they could ensure a

flow of specific technical information on products and processes that are difficult to reach through other channels. Many of these external networks are not formalized, especially at the local level. In fact, nearly two thirds of respondents indicate that the informal nature is predominant in this type of network, particularly in deprived rural areas. Therefore, in these areas there would be less external networks, and those of a more informal character, which puts them in a weaker competitive position with respect to other areas.

In general, this low formalization of territorial and external networks is consistent with both local character and with a low presence in relation to networks of suppliers and markets. The complement to low formalization and to local scope is that they are mainly based on networks of direct contacts, but are also largely non-systematic (especially in intermediate rural areas).

Social Networks: Low Involvement as a Limiting Factor for Rural Development

Continuing with the focus on rural areas and the contribution of networks to rural development, it has been emphasized throughout this chapter that business has not only an economic but also a social dimension, as we have seen in various studies (Esparcia 1999, 2010). It is often difficult to differentiate strictly economic elements from those of a non-economic nature, as may be seen by analyzing the factors considered by entrepreneurs when deciding whether to relocate or to remain in a rural area. In the case of relationship networks this twin-track of economic and social aspects is often highly significant, and this is particularly the case for the rural areas.

Through interviews, we have approached an understanding of the involvement of entrepreneurs in various spheres, showing their participation in non-strictly economic networks. We analyzed three aspects: the associations with which they are involved; the degree of involvement or political participation; and the degree of social participation.

With respect to professional bodies or associations for local development we have already mentioned the individualism of entrepreneurs, which the interviews confirm is indeed the case in the small (and micro) business segment, even in these social aspects. But there are also signs of change, with a growing trend towards participation and partnership. For example, a third of respondents indicate that in their areas there is a high degree of partnership between economic agents, including not only entrepreneurs but also farmers and those managing commercial and other services activities. It is true, however, that the formal links between farmers, for example, tend to be firmer than those between entrepreneurs in the industrial or even service sectors. In turn, these linkages are present mainly in intermediate areas, where economic dynamism is generally higher.

The formal partnership has in origin an economic and professional character, but this does not necessarily imply the active participation of its members – in this case, entrepreneurs – in the social activities of the territory in which they live. In interviews with local development agents, who have a strong knowledge of the

situation in their areas, it was revealed that half of them consider the degree of social participation of entrepreneurs in their respective areas to be either very low or non-existent. Less than a quarter of respondents consider that entrepreneurs in their areas have a high degree of involvement in social activities (and networks); the remainder consider them to have an 'average' involvement.

Therefore it seems that a large segment of entrepreneurs tend to be outside of the general social life, to which we may add a similar number of entrepreneurs whose participation is very low. This occurs both in disadvantaged areas and in those of intermediate character, a fact that leads us to believe that the nature of the territory is not introducing here a significant discrimination. There exists an entrepreneurial sector whose attitudes, and even their relative general importance, probably do not differ too much from what we may find in the whole population (although on this issue we of course lack the relevant statistical data).

Nonetheless, we find significant territorial differences when evaluating the high participation of entrepreneurs in social life. Thus, while in disadvantaged areas no respondent has considered entrepreneurial involvement in social life to be elevated, in the intermediate zones just over a quarter felt that such social participation of entrepreneurs could be classified as high in their area. Although the respondents themselves may have had different criteria when assessing what was 'high' or 'average', what seems clear is that the tendency for such participation is higher in the intermediate rural areas.

Another aspect that might be relevant is that of political participation. Here, respondents' evaluations show that involvement in politics is generally lower than that in social activities. The proportion of respondents who believe that entrepreneurial involvement in politics amounts to little or nothing is almost two thirds. The situation is again somewhat different between disadvantaged and intermediate rural areas, as a greater proportion of respondents in intermediate areas rate this participation as high. If we combine the information on political participation with involvement in social life, the results show that in general the latter tends to be greater than the former in all rural areas. This trend is accentuated in intermediate areas, while in disadvantaged areas political and social trends present a very similar profile.

Concluding Remarks

In Western countries, rural areas have recently been immersed in an important process of social and economic restructuring. In Spain, the crisis of the 1960s and 1970s has been followed since the 1990s by a series of actions and policies, the results of which over the past two decades have been valued as positive. In this sense the Leader and PRODER programs for rural development have contributed towards the creation of small businesses in rural areas, but mostly they have helped to maintain them through improvements in product quality, development of new products and services, support to marketing strategies, and so on. There are many

suppliers and markets seems logical from an economic point of view and under the predominance of economic efficiency criteria, especially since they play an important role in the firms' daily operation. A second major trend is related to the scarce use of other networks, particularly those with a territorial base, linking with other companies and institutions in the rural area. These relationships and networks also form a part of efficiency criteria, but they are much less developed, in contrast with the strategic importance of rural development. Generally speaking, we might suggest that the still scarce level of development of territorial networks with companies and institutions in rural areas in Valencia (and we may say that this situation is representative of all rural areas), constitutes a limiting factor for their viability in the medium and long term, and certainly for the competitiveness of the territory. In fact, during the last two decades, and often with the help of development agencies and other instruments such as rural development programs Leader and PRODER, some networks and partnerships have emerged with a territorial base (Esparcia et al. 2001). When local actors have been able to see in these networks and partnerships a powerful tool for socioeconomic development in rural areas, such instruments have been consolidated and enjoy good health. But unfortunately, for rural Valencia and rural Spain in general, effective instruments promoting solid and sustainable cooperation are still scarce, poorly consolidated or too fragile. There are two main reasons for this.

First, entrepreneurs themselves tend to follow the traditional economic logic, valuing more highly their involvement in sectoral networks; both backward (supply) and forward (market). Second, and in addition to this, local public institutions (development agencies) have not been able to generate awareness among local entrepreneurs that cooperation networks and partnerships are a strategic factor for rural development, at least in the medium and long term, and that they would highly improve the global competitiveness of the territory, not just their own business. On the other hand, we may find many interesting exceptions of entrepreneurs highly committed to the socioeconomic development of their territory, and highly involved, for example, in local social networks.

Therefore, we may conclude that business supply and market networks constitute a very important competitive factor for rural companies (considering the handicaps that rural companies have to face and overcome), especially for daily operation, and in fact determine the companies' feasibility in the short and medium term. Although apparently the territorial and social networks with other companies and the local institutional environment are not a strategic factor in the short to medium term, however, these factors condition an important part of the competitiveness of companies in the long term, and significantly affect the global competitiveness of rural areas. This is where the main problem of rural areas lies. Hence, in the framework of sustainable rural development strategies and in order to improve the competitiveness of these companies, the strengthening of business networks – mainly those rooted in the local socioeconomic and institutional environment (moving towards partnerships linked to the new forms of governance) – must be taken more strongly into account in creating future

development strategies. This aspect is all the more critical when we talk of deprived rural areas, in which we found weaker, less structured, less formal, and less open networks than in intermediate rural areas. The comparative high involvement of entrepreneurs in social life does not compensate for the weakness of the territorial productive networks.

From the scientific point of view, and because of the strategic role in development, further steps must be taken to the development of a more in-depth analyses of business networks, in order to provide a broader comparative perspective on socio-economic dynamics in rural areas, as well as a proper assessment of the best practices for businesses, and for territorial and social networks in rural areas.

Annex 1

Table 13.2 Main orientation of Business Networks in rural areas in the region of Valencia (Spain)

		Supply networks	Market networks	Other (mainly territorial) networks
Whole Rural Areas	Local vs External	Highly External	Light External, but close to Local	High Local
	Occasional vs Systematic	High Systematic	High Systematic	Occasional
	Formal vs Non Formal	High Formal	High Formal, presence of non formal	Non Formal
	Direct – Non Direct	Direct	High Direct	High Direct
	Frequency	High Frequency	Predominance Frequent	
Intermediate Rural Areas	Local vs External	High External, but still important Local	High External	High Local
	Occasional vs Systematic		Predominance Systematic	Occasional
	Formal vs Non Formal	High Formal	High Formal	Low Formal
	Direct – Non Direct	Predominance of Direct	High Direct	High Direct
	Frequency	High Frequency	Predominance Frequent	
Deprived Rural Areas	Local vs External	High External	Balance Local - External	Predominance Local
	Occasional vs Systematic	High Systematic	Predominance Systematic	Balance Occas. - System.
	Formal vs Non Formal	High Formal	Predominance Formal, but increasing Non Formal	Predominance Non Formal
	Direct - Non Direct	Increasing Non Direct	Predominance Direct	Predominance Direct
	Frequency		Predominance Frequent	

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

Table 13.3 Importance of business networks in rural areas in the region of Valencia (Spain)

a) Horizontal percentages												
	Supply Networks			Market Networks			Other (mainly territorial) Networks			Total Business Networks		
	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural
Local	27%	14%	14%	39%	24%	16%	33%	18%	16%	100%	100%	100%
Non-Local	47%	27%	20%	43%	18%	25%	10%	7%	3%	100%	100%	100%
Occasional	0%	0%	0%	36%	21%	14%	64%	36%	29%	100%	100%	100%
Systematic	46%	29%	17%	42%	23%	19%	12%	10%	2%	100%	100%	100%
Direct	39%	21%	18%	39%	25%	14%	23%	14%	9%	100%	100%	100%
Non-Direct	45%	36%	9%	36%	9%	27%	18%	9%	9%	100%	100%	100%
Formal	46%	28%	17%	35%	20%	15%	20%	11%	9%	100%	100%	100%
Non-Formal	21%	14%	7%	32%	21%	11%	46%	29%	18%	100%	100%	100%

b) Vertical percentages												
	Supply Networks			Market Networks			Other (mainly territorial) Networks			Total Business Networks		
	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural	Whole Rural	Depriv. Rural	Interm. Rural
Local	33%	30%	37%	43%	52%	35%	74%	69%	80%	46%	47%	44%
Non-Local	67%	70%	63%	57%	48%	65%	26%	31%	20%	54%	53%	56%
Occasional	0%	0%	0%	19%	20%	17%	60%	50%	80%	21%	20%	23%
Systematic	100%	100%	100%	81%	80%	83%	40%	50%	20%	79%	80%	77%
Direct	81%	75%	91%	85%	93%	73%	87%	89%	83%	84%	85%	82%
Non-Direct	19%	25%	9%	15%	7%	27%	13%	11%	17%	16%	15%	18%
Formal	78%	76%	80%	64%	60%	70%	41%	38%	44%	62%	60%	66%
Non-Formal	22%	24%	20%	36%	40%	30%	59%	62%	56%	38%	40%	34%

Source: Author (from interviews with experts, local development agents and rural entrepreneurs, 2002–2003; 2010).

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