Regional Identity and Culture in Intercompany Networks – a Case of Transdanubian Winery Networks

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1 ABSTRACT

Nowadays a wide range of cooperations can be observed from strategic alliances through networks of suppliers till clusters, due to the fact that market players through collaboration can gain competitive advantages, can facilitate their market penetration and corporate growth. Wineries are neither exception of these cooperations while they go through a dynamic transformation. But how can regional identity, culture, trust and the connectedness of economic players encourage wine-makers to cooperate, to participate in a network or to be an active member of a cluster?

The objective of the research is to measure how social capital can influence network or cluster formation through its soft factors such as culture, connectedness, mutual trust and regional identity. Hypothesis states that participation in a winery cluster is highly dependent on regional identity. Statistical examination - using factorial analysis and bivariate correlations - of seven different wine regions in Transdanubia, covering up 179 wineries who are active members of a network or a cluster proves that there is a positive significant correlation between regional identity and likeliness of joining or even forming a network. Intercompany cooperations tend to develop faster in regions where economic players share common values, norms and show deep regional identity between their members. In this work, a special focus is devoted to the wine region of Pannonhalma.

2 INTRODUCTION

Emphasizing regional identity, culture and trust in network formation we must remember the thoughts of Fukuyama (2000) about economy: “economy is not what it seems to be; it is well rooted in social life, and it cannot be analyzed without taking the establishment of modern societies into account”. This means that economy is inseparable from culture: actors are highly influenced by all those elements, structures and functions that surround them in time-space relations, such as nature, history, tradition, morality, norms or even individual connectedness (Paasi 2009; Brányi 2012). Moreover, individual connectedness - in other words social relations - in line with regional identity promotes social trust and confidence, which gives great support to regional development through local networks (Vadasi 2009).

3 THEORETICAL BACKGROUND

The regions are striving for establishing the relatively high level of income and employment. Their competitiveness is not for their own sake, it is aimed at the improvement of the welfare, living standards and quality of life of the people who live their, which is based on the ability of innovation. A region can be successful if employees concentrate in the economic services and in the processing industry, but their competitive advantage derives from business services and knowledge centres. With the development of technology, the accelerated time people’s learning and knowledge have required/demand a continuous change. (Tamándl 2013) To be able to utilize the possibilities, together with regions the institutions have to create a flexible structure which takes into account the regional facilities, the possibilities and needs of the regions; furthermore, the structure of the institution is suitable for adopting technological, economic and social innovations, and is capable of close cooperation and communication with the regional economy. (Rechnitzer 2009) Innovation has priority, because they contribute to development. That is the reason why it is necessary to create harmony between the needs of companies. (Filep 2009)

Researchers found that regions with commonly shared cultural background, with high social capital and trust seems to be able to initiate and execute regional economic development strategies and projects more easily and more effectively than regions with low social capital and low trust (Vadasi 2009). According to Vadasi “regional competitiveness can be evaluated by the level of development of clusters and networks located in the region. The formation and development of these networks always rely on the supportive social and cultural background, which is built on existing trust and confidence.” After having social networks and trust established, more mature corporate networks can evolve (Granovetter 2005). These networks also serve as a

reward and punishment system among economic actors; furthermore, it improves the regional consciousness and solidarity (Putnam, 2000; Coleman, 1990).

4 RESEARCH METHOD

This paper is empirically based, therefore quantitative descriptive research method was chosen, where samples were taken once (Malhotra, 2005). The entire population of the wine firms from the eight Transdanubian wine regions was sourced. In all, 179 firms were included in the sample with the restriction, that they must belong to an active operating wine cluster or network. All of these firms were surveyed, out of 179 firms, 128 replied resulting in a response rate of 71%, which is outstanding and statistically it can be considered as representative (Sajtos – Mitev, 2007). To collect data during the qualitative research phase surveys were created and delivered to respondents personally, by mail or online after an initial phone call about the research.

Respondents were asked a series of questions related to social capital, which measured the willingness of cooperation, the motivation of entering a network or cluster and the level of trust and confidence toward local economic actors in the wine industry. Respondents were asked to assess these factors on a five-point Likert scale from strongly disagree to strongly agree. The final survey contained 57 questions, where the measuring level of the response combinations show 11 nominal, 18 ordinal and 62 scale variables.

5 RESULTS

Hungarian national wine production averaged 3,5 million hl in the last 5 years (2007-2012) according to National Council of Wine Communities (Hegyközségek Nemzeti Tanácsa – HNT, 2012), which made up a 2% of total EU wine production. Hungary occupies the 18th position in the ranking of wine producers in the world, and the 8th rank in the EU (HNT, 2012). The surface dedicated to grape growing was 71.791 ha of vineyard in 2012 (HNT, 2012), which shows a significant 15% reduction since the EU accession.

The majority of vineyards can be found in 22 wine regions (appellations), where Hungary produces mainly PDO wine (protected designation of origin), PGI wine (protected geographical indication) and table wines on 53.842 ha (HTN, 2012). In this paper I focus on the Trandanubian region of Hungary which covers up 15 wine regions with 25.558 ha. Out of these 15 wine regions the above mentioned 8 wine regions were measured, giving 59% of the Trandanubian wine production (HTN, 2012).

Within these 8 wine regions some private and even government agencies stimulate the formation of wine networks or clusters between wine growers and cellars; however, it was eased up by the culture and the history of wine growing, as well as the willingness of mutual assistance and cooperation. In some cases, other agents such as higher education institutions or government agencies extend these cooperations.

5.1 Soft factors effecting intercompany cooperations

Before the data were submitted to factor analysis using Principal Component Analysis, all those soft factors were ranked, that influence the motivation of entering a wine network or cluster. According to the results, it can be seen, that Vadasi's (2008) findings were partially accepted as the positive image of the region (4,82), identification with the region (4,65), former acquaintance with cluster members (4,20) were valued as the most important factors of entering a network or a cluster. Paasi (2002) claims that "spatial connection and proximity results in interpersonal interactions among community members", is a statement valid for the measured wine regions as well. As a result, intercompany cooperations are well supported by commonly shared cultural values and norms.

The first three soft elements were followed by factors such as possibilities of lobbying (3,67), trust and confidence to local actors (3,45), former strong connections with members (3,41), coping with former negative "memories" (3,23) and the possibility of dividing tasks between members (2,79). The results highlight the importance of confidence and connectedness in intercompany network formulation. Regarding Putnam (1993) and Coleman (1998) network density, confidence and durability of relationships, in other words former connections with members, are key elements to high level of trust and cooperation. Indeed, these soft factors of social capital are valued highly important by respondents. Standard deviation approves it statically, as it is always below 0,7, which means that wine growers and cellars uniformly share these values.

5.2 Correlation between soft factors

After having the soft factors ranked, correlations of variables were controlled for statistical significance with Pearson's correlation coefficient in order to reveal the linear relationship between trust and confidence, regional identity, lobbying power, risk sharing and between former business relations or acquaintance. Boxplot helped identifying potential outliers, and then correlation analysis was performed. Correlations were accepted above 0,01 significance level (Sajtos-Mitev, 2007, 211. p.).

It can be concluded, that trust and confidence correlates statistically to risk sharing among members (r=0,657), possibility of lobbying (r=0,608), coping with former negative "memories" (r=0,505), dividing tasks between members of cluster or network (r=0,465) or even it strengthens the lobbying power towards governmental institutions (r=0,460).

These findings on trust and confidence are in line with Putnam's (1993) statement on trust or distrust, namely "trust, confidence, norms and elementary networks, so to say "civil virtues" exert and facilitate their effect in social relations". Regarding Coleman's (1998) three types of social capital utilization theory, the role of norms and sanctions are present in the Trandanubian wine clusters or networks. It helps overcoming former negative experiences, extends connectedness to local actors, thus creating mutual trust.

Furthermore, it can be stated, that former acquaintances correlates with active business connections between members (r=0,469), helps dividing tasks between local actors (r=0,437) and a perfect tool of sharing risks and overcoming market threats (r=0,435). At this point referring to Granovetter (2005) and Coleman (1998), social connectedness can greatly influence the development of social networks, which in turn affects the willingness to cooperate. Built on former connections companies do not set up defensive behavior, they realize common interest instead. After having social networks established, more mature corporate networks can evolve, which can also be found between the Transdanubian wine cluster members, as well as in Pannonhalma wine region.

Regional identity or one's identification with the region as a soft factor effecting intercompany cooperation was measured in the research too. Results show a strong correlation between the identification with region, namely how one identifies himself with a certain region with its culture, sociality, morality or traditions, and between projecting positive image of the region (r=0,599). As Paasi (2009) states regional identity indicates social integration in a region. Giving the fact that wine regions have very clear boarders they are easy to differentiate from one another, as a consequence, wine growers and cellars can unambiguously identify themselves with the region and they actually doing so.

5.3 Soft factors effecting intercompany cooperations

The soft factors were analyzed using Principal Component Analysis with varimax rotation and considered all valid observations of each variable for the missing data. The index of Kaiser-Meyer-Olkin (KMO) adequacy of the sample was 0,645 and the Bartlett's Test of Sphericity (significant to 0,000) indicated the factorability of data. The KMO indicates that the factor analysis is an appropriate technique (Sajtos-Mitev, 2007, p. 258).

The result of factor analysis suggested that the motivation of entering a wine network or cluster is explained by five factors, with 66,9% of total variance explained. The Cronbach's alpha is above 0,5, which represents a good range for an exploratory study, furthermore, the items' coefficients absolute value are above 0,5 as well (Sajtos-Mitev, 2007). It is possible to conclude that the items in each dimension of the construct are suitable for measuring all those soft factors that influence the motivation of entering a network or a cluster.

As one contribution of this study, Table 1 shows the variables and accordingly the emerged factors. It is possible to observe that they represent the dimensions of social capital, namely trust and confidence, regional identity, connectedness and distrust. The meaning of each factor can be inferred from the content.

In the case of Pannonhalma wine region's wine growers the social capital is represented mainly by *trust and confidence*, which explains 29,24% of the total variance. The *regional identity* factor represents 11,89%, the *connectedness* factor 10,26% , the *power of cluster* factor 8,27% and finally the *distrust* factor explains 6,98% of the total variance.

The results call attention to the fact that the averages of the variables in each factor, in other words the soft factors motivating wine firms to enter a network, are very similar for *trust and confidence*, *regional identity* and *connectedness* and *power of cluster* factors, ranging from 2,85 to 4,3, while *distrust* factor has a mean of

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2,75. Therefore, we conclude that there is an important role of social capital in the decision of entering or formulating a wine network or even a cluster in the Pannonhalma and Transdanubian wine region. However, distrust is present, but it is underweighted compared to the other four factors. In this perspective, we argued that the soft factors of social capital were effectively motivators in the intercompany cooperations, as discussed previously.

Factor	Item	Loading	Mean
Trust and confidence 0,812* 3,05**	Possibilities of lobbying	,830	3,67
	Possibilities of dividing tasks	,810	2,77
	Increasing trust and confidence to local actors due to cluster	,660	3,45
	Lobbying power towards government institutions	,640	2,74
	Business connections between members	,580	2,65
Regional identity 0,727* 4,73**	Positive image of the region	0,91	4,82
	Identification with the region	0,80	4,65
Connectedness 0,629* 3,72**	Former acquaintenance with members	0,83	4,20
	Strong connections to local members	0,79	3,24
Power of cluster 0,564* 2,85**	Developing active trade connections with member companies due to cluster	0,73	2,65
	Increasing power of cluster members toward suppliers	0,70	2,53
	Risks are commonly shared among members	0,50	3,37
Distrust 0,528* 2,75**	Due to distrust low level of knowledge-transfer	0,74	2,55
	Higher costs but low rate of return through cooperation with others	0,70	2,68
	Cooperation with rival companies	0,54	3,03

*Note: Cronbach's alpha, **Note: Mean of factor

Table 1: Soft factors motivating Transdanubian wine firms to enter a network or cluster. Source: own research (2013)

6 FINAL CONSIDERATIONS FINAL CONSIDERATIONS AND FUTURE RESEARCH POSSIBILITIES

As wineries from all over the world go through a dynamic transformation since globalization, many wine producing enterprises in the traditional European wine regions are forced to deal with low-cost, standardized quantities of New World wine backed with heavy marketing campaigns. Hungarian wine producers are neither exception; just like other traditional European wine producers they seek competitiveness by intercompany cooperations. Generally Hungarian wine networks are present but formed rarely, which can be explained by bad memories of forced cooperation during communist era, lack of capital in the wine sector, distrust between actors and some opportunistic behavior with short term thinking (Cafaggi, 2010). To overcome these difficulties a supportive social and cultural background is essential, which is built on existing trust and confidence, in other words, on social capital.

The aim of this research was to examine social capital and to measure those soft factors that motivate or influence enterprises to enter intercompany cooperations. The research applied to the role of social capital in wine industry shows that intercompany network formation is highly influenced by trust and confidence, regional identity and connectedness of local actors. However distrust is still present, it cannot hinder network formation itself, but able to slow down knowledge-transfer between members. The results confirm the importance of assessing social capital in intercompany wine networks, which can be summarized: 1. high level of trust and confidence ease up intercompany formations; 2. intercompany networks divide the risks among members; 3. intercompany networks allow that its members solve their collective problems easily.

The case of the eight wine regions in Transdanubia demonstrates that spatial connection and former interpersonal interactions among members were necessary to initiate first informal network formation. After having social networks and trust established, more mature corporate networks could evolve. The publication results also support the findings of Granovetter (2005) and Vadasi (2009), namely society has to reach a certain level of social capital to establish networks, which can later improve competitiveness, enhance broader social cooperations and boost knowledge-transfers.

Future research should investigate social capital evolution and their effect in wine clusters and networks on a longer time scale, exploring the role of trust and connectedness in emerging wine regions as well.

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