

## 4. TRUST BUILDING AND SOCIAL CAPITAL

### 4.1 What makes a cluster work?

Enterprises can benefit from being located in close proximity to each other. Such positive effects can be called *passive external economies* because they accrue despite any planned efforts by the firms. Such gains are a necessary but not sufficient condition for cluster growth. The benefits of clustering are the outcome of explicit joint actions among stakeholders – the firms in the cluster and a range of other entities playing a "supporting role", such as service providers, banks, government and non-governmental support institutions, associations, policy makers, retailers, wholesalers, inputs providers, etc<sup>1</sup>. Targeted joint actions lead to what has been called *active external economies*. In such actions, the stakeholders break down ventures, which would be too risky for them individually, into small steps, which they can handle together and which minimize the risk of failure.

In an overachiever cluster, stakeholders address challenges and opportunities by jointly agreeing on priorities, strategies and activities and implementing the same. Such cooperation is not all pervasive. In fact a strong element of competition constantly propels the stakeholders. Intense competition is often observed to control resources (natural, human and capital) and to access infrastructure (physical, administrative, information, science and technology). This secures efficiency in factor use and, most importantly, breeds specialization, which are essential for the shift to a high-growth path.

How can cooperation and competition be combined, how can the forces of competition be harnessed to ensure high growth throughout the cluster? This depends on the existence or development *trust* and *social capital*.

Trust in the present context, is not an absolute concept. For the present purpose it is a level of understanding among stakeholders that facilitates a joint activity, ensuring that all relevant information for that joint activity are shared and that the best of efforts are made for achieving the objective of that joint activity. It could be called *functional trust*. The more complex an activity, the higher the level of involvement (sharing and dependence) of different stakeholders, and the higher the level of functional trust required among those stakeholders. The stock of all such relationships based on shared values and a culture of (local) belonging, enshrined in long-accepted practices and ways of behaviour but also underlying formal agreements or codes of association, is the *social capital* of a cluster.

---

<sup>1</sup> The different stakeholders will be discussed in Session on diagnostic study.

It is obvious that the two are closely related. Trust is a key element in the creation of widely accepted business practices: without it, every contingency would have to be spelled out for every business transaction. Without shared values, people cannot be expected to trust each other.

## **4.2 How to build trust**

The process of building functional trust starts with formal or informal interactions and bears fruit in tangible improvements in interaction. Discussions alone may not lead to any tangible results, but they certainly help to create the momentum. An external catalyst, the cluster development agent (CDA), who enjoys the trust of each cluster stakeholder, helps in the creation of trust among stakeholders.

Visits to better performing clusters can create a positive atmosphere and get rid of many doubts and inhibitions among stakeholders, as negative attitudes are often picked up through secondary sources and do not have a factual basis. New areas of cooperation can also evolve during such visits, from discussions and comparisons of performance.

When there is a total lack of motivation, innovative ways to build trust can be used, as Box 1 shows.

### **Box 4.1: Strengthening co-operation among the block printers of Bagru**

Since the introduction of screen printing (a mechanical method), hand block printing of textiles in Bagru - a village belonging to the hand block printed textile cluster of Jaipur - has faced severe problems, as screen-printing is twenty times faster and also cheaper. Many printers tried to survive by cutting costs and quality. As a result the level of business trust among many of them fell.

A diagnostic study showed that an attempt to cooperate had failed some twenty years before. No further move had been made since. The reluctance of the firms to participate even in an introductory meeting for a cluster project indicated that twenty years of bitter competition had made any business related trust-building difficult.

The cluster development agent (CDA)<sup>2</sup> shifted the focus of awareness building towards the sons of the artisans, who are block printers themselves. The CDA hoped that the younger generation might not suffer from the same mutual mistrust and that their superior education would equip them with a longer-term approach to business.

A series of meetings (one to one, groups and small groups of likeminded people) were conducted to identify the needs and priorities of these young artisans. This was a very time consuming task without any tangible short-term result. But the meetings led to a keen shared interest in strengthening marketing skills, and the young artisans agreed to contribute to a suitable training course.

In conjunction with a local non-government organisation and with the support of the Small Industries Development Bank of India (SIDBI), a market-orientation training programme was organised in Bagru for 23 young artisans with an average age of 21. Besides classroom teaching on marketing promotion, quality testing, product development, advertising and distribution, the programme included a visit to Delhi (to

---

<sup>2</sup> CDA is an external agent who induces development in the cluster.

showrooms and representatives of artisan support agencies) and Jaipur (to the larger block-printers and trading houses).

The young artisans were enthusiastic. They became more confident about their marketing skills. They also became interested in various existing artisan support schemes, of which they had been unaware. They were surprised about the profit margins showrooms earned from products bought at Bagru. The enthusiasm available in-house (literally) spread to the parents, who started to show up at the following meetings, now convinced by the sons of the ability of the CDA to deliver services that were important to them.

Concrete activities are important to ensure that trust building picks up momentum. They should ideally revolve around areas of prime business interest and lead to the realization of some short-term goals. New issues will emerge as these activities are implemented. The stakeholders will decide together which of these are important, and trust is created for handling the new issue together. Over a period, stakeholders gain trust to tackle broader objectives together.

Functional trust depends on the nature of the activity and is therefore needed at various levels for different joint activities, for example trust within a business network, between a network and a financial institution, between a network and a technical institution, between technical and financial institutions. If a CDA is involved in the creation of trust, then (s)he should also develop trust bilaterally with all cluster stakeholders.

#### **4.3 Indicators of trust building**

The emergence of trust in a cluster can be monitored. Several developments provide useful elements to judge the evolution of such a process, such as:

- *Creation or revival of focused networks/associations in the cluster.* This is an indicator that greater consensus is spreading in the cluster.
- *Increased level of participation* of networks/association members in decision making
- *Increased level of stakeholder commitment:* They not only prepare their own long-term vision and consequent action plans, but are willing to commit their own resources and explore additional sources of funding for common plans and activities.
- *Stronger co-operation among the stakeholders:* resulting in a free flow of information, participation in fairs, common purchases, training of manpower, joint marketing, etc. These forms of co-operation are a sign that long-term relationships begin to emerge.

The CDA should keep track of the development of trust. This can be done with a table containing the above elements in rows, and columns where a qualitative judgement of progress (or lack of it) is entered at certain time intervals (e.g.: Level of participation, 1/1/2003: low, 1/6/2003: improving, 1/1 2004: high)

#### **4.4 Breakdown of trust**

Trust may break down due to wrong expectations which result from sub-optimal communication. This needs to be remedied immediately through open discussion. Intermediary stakeholders who enjoy the trust of all parties should be involved in such a discussion. A good, continuous information flow among stakeholders is very helpful in handling such contingencies.

### **4.3 Social capital**

Social capital is similar to other forms of capital, such as machinery (physical capital) and training (human capital), in the sense that its presence significantly increases the productivity of labour. Like other forms of capital it is accumulated over time. The social capital accumulated during a long common history in performing clusters is the reason why stakeholders find it natural to disclose their problems and agree on a set of activities that can help solve those problems. Each successfully solved problem or efforts made for the same increases the size of social capital and is available for further use in new activities.

An example: building on their social capital, a group of exporters can shift from a mindset focused on competition based on low quality in well-known markets to competing for a share of high-value products in a new market. The exporters can jointly identify and use the services of a designer for products for the targeted market, share a big stall at a fair and get a discount or a better location, develop a profile as a group to facilitate trust building with new buyers, etc. During the fair they will of course strongly compete with each other for orders through product differentiation. Thus, by creating linkages, sharing concerns, identifying a joint action route and competing, they enhance the competitiveness of the cluster and enlarge its share in exports.

### **4.4 How can social capital be activated?**

In a cluster, level of social capital can be enhanced by:

- (a) Promoting forums for a dialogue among cluster stakeholders by re-activating of networks/associations,
- (b) Encouraging cross-fertilization of ideas via the umbrella associations of the different cluster stakeholders,
- (c) Disseminating awareness about the advantages of joint action through the cluster, and
- (d) Enabling cluster leaders to conceptualize and implement joint initiatives.

The creation of social capital is often not a considered a priority area because the fruits of social capital are less visible than other forms of capital investment. In a performing cluster, sound infrastructure, new technologies and good support services are more visible than the focused joint actions that were often required to generate them. Therefore, this requires investments of resources (time, capital, manpower) and some well-tested techniques<sup>3</sup>, to achieve the same.

---

<sup>3</sup> See chapter on implementation

## 4.5 Cooperation matrix

One can gauge the current status of social capital in a cluster with the help of a *cooperation matrix*. Each cell in the matrix assigns a value to the strength of linkage between two stakeholders in the cluster. There is not necessarily a linkage between two stakeholders. For example, a network of small knitwear manufacturers for joint marketing will have no reason to build linkage with a BDS provider in the field of energy. A network of dyeing machine manufacturers which aims to standardize some parts (so as to enable production in volume) will have no linkage with the above networks of knitwear manufacturers. BDS providers in energy unlikely to have linkages with designers.

Table 1 presents a hypothetical picture of the relationships in a cluster at a certain point in time. It is important to trace the developments of linkages in a cluster. This can be done with yearly matrixes, or with more complex matrixes covering several years (see Box 2)

**Table 4.1: Hypothetical cooperation matrix of a cluster**

	NW 1	NW 2	Assoc. 1	Assoc. 2	Umbr. Forum 1	BDS 1	BDS 2	SI 1	SI 2
<b>Network 1</b>	1	NA	0	NA	0	0	0	1	0
<b>Network 2</b>	NA	2	NA	1	0	1	1	1	1
<b>Association 1</b>	0	NA	1	0	1	0	0	0	0
<b>Association 2</b>	NA	1	0	2	1	0	0	1	1
<b>Umbrella forum 1</b>	0	0	1	1	NA	0	0	1	1

Key:

BDS = Business development service provider, NA = not applicable.

Score values: 0 - no linkage and/or open conflict; 1 - stakeholders barely know of each other, no impact on the cluster as a whole; 2 - positive linkages and some history of mutual help, some impact on the cluster; 3 - strong propensity to cooperate based on a supportive history; 4 - excellent existing linkages with significant impact on the cluster as a whole.

It can be readily seen that the social capital of the cluster is low as the linkages are weak. This is usually also true for network linkages, where cooperation tends to be limited to specific areas.