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## **Collective Entrepreneurship - Networking as a strategy to business development**

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### **Abstract**

**Purpose:** The paper address the emerging practice of collective entrepreneurship and to demonstrate a model of network marketing management in SMEs. The use of cooperation and alliances between local actors has gained increasing attention in the contemporary economy and has been discussed as a strategy for coping with increasing global competition. One example of an area in which this focus has gained acceptance is among actors located in the experience industry and especially in tourist destinations. The problem of finding well-functioning organisational models for such collaborative efforts in the context of small and medium sized tourism enterprises (SMTE) is recognised in marketing theory and practice. The focus of this paper is to elaborate on marketing models in a SMTE setting. The problem is enlightened from the entrepreneurship, marketing and networking perspectives.

**Method:** The result is based on a case study of a horizontal hotel network in the context of a Swedish municipality. In-depth interviews with hotel owners or managers as well as with the local tourism authorities contributed with the main information in the case.

**Findings:** The interviews resulted in a visualisation of a powerful web of connections between actors showing the impact of collective entrepreneurship to achieve a positive business development.

**Originality/value:** This paper suggests that theories of networks may contribute to a logic that provides a better understanding of contemporary tourist destination marketing practice.

**Keywords:** Networking, entrepreneurship, business development, tourism, social capital

**Classification:** Case study

### **1. Background**

In society of today rapid changes in a transitional global economy support an increased competition between businesses and organizations that produce value for customers. The use of cooperation and alliances between local actors has for a long time been discussed as strategies to meet up with this increasing competition. One example where this focus has gained acceptance is among tourist destinations (e.g. Jamal & Getz, 1995; Buhalis & Cooper, 1998; Fyall, Callod & Edwards, 2003). Recognized in many tourist destinations is the problem of finding well functioning organisation models for such collaborative efforts. Networking theories has been suggested as a way to better understand ongoing marketing activities and processes aiming to develop a business. Though different

business contexts offers different prerequisite for networking. A tourist destination is a pertinent example on how networking activity among producers could differ. Businesses at a tourist destination are run in contexts in which social interaction takes place through a network of relationships. In more recent studies a number of researchers have drawn attention to the importance of the social context in the development of collective produced products (e.g. Alberti, 2003). The purpose of this paper is to discuss if a strong social capital stimulate networking small tourism entrepreneurs to contribute to the common marketing efforts when conditions are changing.

## **2. Destination Marketing**

There are a number of different approaches to study the marketing strategies of companies. Until the 1990s the dominating approach in marketing literature has been a theoretical marketing model that uses realist ontology, positivist epistemology and nomothetic methodology: the marketing management approach (see e.g. in Kotler, 1997, Porter, 1980). According to this approach the company can primarily through its own strategies and actions strengthen its position on the market in relation to its competitors. It has traditionally been accepted as a general model, applicable to most companies. In the Internet governed networking society (Castells, 2001) this conventional approach to marketing has however been challenged by several scholars. One example is Sheth and Parvatiyar (2000, p. 140) who claim that “an alternative paradigm of marketing is needed, a paradigm that account for the continuous nature of relationships among marketing actors”. Also Gummesson (2006) urge a paradigm shift in marketing and call for a new dominant logic providing a better understanding for marketing in what he calls, the “value-creation network society”. He says that such a shift “implies that a science or discipline is given a new foundation, with new values, new assumptions or new methods.” (Gummesson, 2002, p. 309). Vargo and Lusch (2004) suggest that we by changing the perspective on resources could provide a framework for viewing a new logic for marketing. In their work they challenge the view on resources as static “stuff” and present a picture of resources also as intangible and dynamic. With such approach relationships, interaction and networks become essential in contemporary marketing theory. This foundation has been essential to several scholars who have emphasized the network society and its effect on marketing theory.

Previous studies also shows that traditional marketing theory is only of limited value to most tourist enterprises, as these theories are based on the assumption that a company has full control over the marketing and image-creation of its product (Grängsjö, 1998). A further limitation for tourist enterprises is that a tourist product with spatial fixity does not usually involve a single entrepreneur, but ownership is often spread amongst several small enterprises, each of which is dependent on the others to provide a unified quality product for the tourist. The different entrepreneurs involved in the tourist destination could all have their own individual motives and values that affect the way in which they operate (von Friedrichs Grängsjö, 2003).

The relationship between co-operation and competition becomes essential with regard to the marketing of a tourist destination as it occurs at various levels (Weaver & Oppermann, 2000). In one respect the tourist destination constitutes a unified tourist product in relation to other potential destinations for tourists. In another respect competition exists at the destination between the various elements of the tourist product. The destination may develop or stagnate depending on whether companies are rivals or whether they co-operate at the various levels (Bengtsson & Kock, 2000). The development can be influenced by how companies work for or against each other at the proximity. In an area of spatial fixity or geographical cluster, the on-going social processes within the community could influence these issues (OECD, 2005). One of the disadvantages of traditional marketing theories is that they do not include the relationships, interactions and networks that provide the geographical and social framework within which the entrepreneur operates. They ignore social processes, which exert a major influence on the behaviour of companies in a cluster environment such as tourist destinations.

### 3. Destination Collaboration

A common opinion among several tourism researchers is that the tourist product is dominated by services intensive production. As Fyall and Garrod (2005) points out unlike traditional product marketing and the rest of the service sector, tourism is a highly complex and multi-sectoral industry. Tourism organizations “often have to deal with multi-stakeholder scenarios, demonstrate responsibilities to the environment and ethical considerations, and be receptive to social and cultural pressures, frequently from central, regional and local government” (Fyall & Garrod, 2005 p. 37). The interplay between competition, co-operation and regulations/institutions becomes important issues in such industries (Gummesson, 2002). Enterprises in spatial proximity have to consider not only developing and marketing their own tourist product but also the agglomerate product, the tourist destination. Fyall and Garrod (2005) stress that collaboration in tourism in practice is now widespread but lack systematic studies in tourism marketing from a collaborative perspective; it still remains in its infancy. Several research reports in tourism have recognized the importance of collaboration and networking in the context of developing and marketing a tourist destination (Fyall & Garrod, 2005; von Friedrichs Grängsjö, 2003; Weaver & Oppermann, 2000; Buhalis & Cooper, 1998; Palmer, 1998; Jamal & Getz, 1995; Palmer & Bejou, 1995). Despite this insights tourist destination still lack evolved models for such collaborative marketing (Fyall & Garrod, 2005).

Since 1990 when Michael Porter published his work on “The Competitive Advantage of Nations” the cluster concept has challenged policy makers. The definition of a cluster used by Porter is: “Clusters are geographic concentration of interconnected companies and institutions in a particular field.” (1998, p.78). The cluster concept has great impact in different academic fields as well as in policy documents because of the opportunities it offers to new insights about dynamic processes in industrial milieu. With structural changes in society such as developed information access, as in Internet communication and faster distribution channels (Porter, 1998), small and medium-sized firms (SMEs) are challenged to work out new ways to market their businesses. Porter (1998) along with Boari, Odorici and Zamarian (2003) show that collaboration among firms in geographic clusters is a powerful determinant to gain competitive advantage for both the clusters as such and their individual member firms. Moreover the OECD report (2005) shows that cluster participants are better prepared to cope with international competition thanks to pooling of key resources and processes of collective learning. The same report underpin that fostering clusters can be used to achieve local development goals, such as SME support, job creation and local skills upgrading. Clusters are established through strategic interdependence between actors with horizontal or/and vertical links. Such agglomeration demands interaction among entrepreneurs and local institutions, it demands co-operative activity in different government levels and co-ordination among various policy areas (OECD, 2005). OECD implies that this is why cluster policy has proliferated in recent years.

Goglio (2002) include the importance of proximity, shared values and context when he describe industrial districts as “local realities in which:

- there is a high concentration of small and medium-sized manufacturing units specialized in one or few phases of a particular production process;
- the production process meshes closely with a local community with which it shares a common system of values;
- the industrial composition is distinguished by a particular industry which dominates the local economy and guides its development.”

The characteristics mentioned above are possible to recognize in the tourism context as the tourist industry is often described as consisting of many small enterprises producing competing or complementary products, but which are often formally independent of one another, in the sense that they are not owned by a large conglomerate (Hjalager, 2000). A tourist destination could therefore be regarded as ‘critical masses’ or a cluster of unusual competitive features in one place with its geographical concentration of production of goods and services aimed for tourists. Despite those similarities it is rare to find research reports on tourism related into the framework of industrial district. It is a problem recently recognized in a report by the Swedish Tourist Authority (2005) where they underpin the importance of innovation- and cluster perspectives for the future development in the

tourism industry. The lack of research could be an effect of that "the constellation of an industrial district basically takes a starting point in agricultural and manufacturing industry" (Hjalager 2000, s 2) which implies that the result is exported from the area while tourism is a complex service intensive production where there is a need to import customers to the destination premises to be able to produce value.

#### **4. Social Capital in Networks**

The way a company can operate in a locality is greatly influenced by the social environment and the social interaction that takes place in networks of relationships (von Friedrichs Grängsjö, 2003). Granovetter (1973, 1985) puts emphasis on "embeddedness"; economic organizations are embedded in networks of interpersonal relationships and larger social structures. Socialisation and regulations can create trust between individuals and form a principal resource termed social capital. Kilpatrick et al (2003) draw attention to the use of social capital and divide the different approaches into two main groups called 'collective benefit' and 'individual benefit'. In example Woolcock (1998) uses social capital as a broad term encompassing the norms and networks facilitating collective action for mutual benefit. In his seminal work Putnam (1993) emphasize that the local milieu offers an environment for evolution of a "social capital", in the meaning that tacit knowledge as norms, values and institution are socially constructed among the members in society. A crucial element to achieve collective development goals in a destination context formation could be the social capital.

In recent discussions of social capital a distinguish between "bonding" and "bridging" can be identified (Leonard & Onyx, 2003; Putnam, 2000). Leonard and Onyx (2003) argue that bonding social capital is connected to dense, multiplex networks, long term reciprocity, thick trust, shared norms, and less instrumentality. While bridging social capital is to be associated with large, loose networks, relatively strict reciprocity, different sort of trust, greater risk of violation, and more instrumentality. Foster and Meinhard (2005) found in their study of women in voluntary organisations that women's organisations collaborate more than gender-neutral organisations and also that bonding and bridging relationships is significantly different. They also show that the more threatened the women's organisations feel about environmental changes the more motivated they feel to collaborate. Leonard & Onyx (2003) means that women managers appear to use more bonding than bridging social capital while Foster and Meinhard (2005) disagree on that. In their study they show that this inconsistency depends on predisposing factors such as organisational size, staff strategies, outlook about the future and mandate.

Woolcock and Narayan (2000) argue that a shift from "getting by" to "getting ahead" is necessary to reach real economic development in communities. They further argue that bonding ties have to be replaced by bridging ties to be able to access to a wider arena. Too tight ties in a community may impede different groups to come together for a common cause (Leonard & Onyx, 2003). In line with this it could be argued that too tight ties between members in a community network could hinder new members to enter in to the network. On the other hand it is shown that "close multifunctional ties are preferred for both bonding (within group) and bridging (between group) connections" (Leonard & Onyx, 2003:200). They show as well that people are more predisposed to work with people most similar to themselves and that people in a community belong to different social categories. Leonard and Onyx conclusion is that "Such multiple, overlapping social identities also serve to bond the wider community in which they occur." (p.202). And that organisational structure is as important as people in the development of a region or a local community.

In this paper these social constructs are focused and discussed from a case study of a horizontal hotel network in a tourist destination context in Sweden. In a previous study of the network carried out by von Friedrichs and Gummesson (2006) the purpose was to empirically examine network mechanics when local competitors take action to improve their individual situation by improving the collective competitive position on the market. The domain of the specific case was then and still is B2B, SMEs, destination marketing, and competitor co-operation in a local, horizontal hotel network – the Hotel Group – in the town of Östersund, Sweden.

## 5. The Case

In the beginning of the 1990s, the hotel sector in Sweden suffered a reduction in room reservations. The hotels in Östersund were hit harder than hotels in other parts of Sweden, which was difficult for the local hotels to understand. The hotels and the local government felt that they had to take action. Two of the largest hotels in the town initiated a network to endeavour to reverse the trend. Their hotel managers approached the other local hotels to discuss the possibilities of co-operating. In 1996 they held a statutory meeting that was the start of the Hotel Group and an informal collaboration. In addition, the Tourist and Congress Office, which is operated by the town of Östersund, became part of the group. When Sweden joined the European Union in 1995 it became possible to apply for funding from the European Union Structural Funds to support co-operative efforts for local development. It gave the network a more formal structure with a management committee. The Hotel Group became a local horizontal network with two main objectives: 1) take care of the common marketing of the destination and increase the number of guest nights in the hotels, 2) provide further education for the hotel employees.

The structure of the tourism business in Östersund reflects that of the county, which is dominated by SMEs of which only 7 have more than 200 employees. The town has 58 000 inhabitants and is located in the middle of Sweden, 600 kilometres north of Stockholm and 200 kilometres east of the Norwegian border. It is the biggest town in the area and with its location on the lake of Storsjön and closeness to the mountains it attracts people from many nations all year round. The town can be reached by car, coach, air or rail. The closest comparable towns are Sundsvall and Trondheim. Sundsvall with 93 000 inhabitants is located on the Swedish east coast 180 kilometres from Östersund while Trondheim with 153 000 inhabitants is located on the Norwegian west coast 300 kilometres from Östersund.

In a case study conducted in 2002 and 2003 it was examined how local hotels compete and co-operate in a horizontal network to promote both individual company interests and the competitive position of an entire destination. The study shows that the Hotel Group has found a success formula. Among the results are that a drive for action, both planned and improvised, is more decisive for success than plans and expressed intentions; that networking is facilitated when local competitors build social capital through trust and commitment in action; and that competitors have to adhere to certain basic principles, strike a balance between seemingly contradictory strategies, and live by an agreed code of conduct. (von Friedrichs Grängsjö & Gummesson, 2006)

In the beginning of 2004 the Hotel Group experienced several challenges such as: the ownership or the management changed in several member hotels, the funding from European Union Structural Funds ended, a new management committee for the network had to be created due to the changes in member composition. A follow-up study of the Hotel Group was therefore conducted in 2004 and 2005. Research questions considered at that stage included: How much of a generally applicable success formula do the findings in the first case represent? How robust are the conclusions? Can a small variation in one or two of the many factors that constitute the Hotel Group's work become a tipping point and make the group and its success collapse? How sustainable will the group's work be? This will add a longitudinal dimension to the problem and the conclusions put in the earlier study.

During the follow-up study there were 13 hotels in the central town. These hotels had 9 different owners and all but one was privately owned. The hotel sizes varied from 7 to 177 rooms. An international hotel chain owned one of the hotels and six of the other hotels were attached to collaborative hotel chains. All the hotels in the town were members of the Hotel Group. The local government was represented through the manager at the municipality owned tourist and congress office. The Hotel Group network consisted in total of 10 people representing the enterprises and the local government. The network had a management committee made up of members of the group.

All ten members were interviewed at their respective hotel premises except for the tourist and congress office manager. Six of the respondents were owners of the hotels, three were CEOs and one was

manager of the tourist and congress office. The interviews lasted between one and two hours, they were tape-recorded and later transcribed. The questions were semi-constructed and allowed the respondents to answer quite comprehensive. The question areas dealt with questions about the individual hotel as ownership, number of employees, annual turnover, customer categories, prime mover, marketing and the work in the Hotel Group.

## **6. Social capital in networking tourism entrepreneurs**

The imperative to create competitive and sustainable regions is rapidly riding up the political agenda. As a counterweight to debates about economic growth and productivity there is increasing awareness of the importance of regional strategies in which social, political and environmental considerations are integrated into economic development. The European Union claim that they are working to strengthen the competitiveness in European regions and that, "European regional policy is a policy promoting solidarity. It allocates more than a third of the budget of the European Union to the reduction of the gaps in Development among the regions and disparities among the citizens in terms of well-being. The Union seeks to use the policy to help lagging regions to catch up, restructure declining industrial regions, diversify the economies of rural areas with declining agriculture and revitalise declining neighbourhoods in the cities. It sets job creation as its primary concern. In a word, it seeks to strengthen the economic, social and territorial 'cohesion' of the Union." (Regional Policy – Inforegio, 2005) One of the aims with the European Unions Structural Funding is to facilitate economic growth and job creation through stimulate creation of new structures for partnerships between businesses, institutions and public administration.

The many actors involved in producing tourism, i.e. from the public, private and third sector, often have different aims, goals, and motivation. From the former study of the Hotel Group we learned that the co-ordination of autonomous actors at the destination demands that a balance is found between: co-operation and competition between companies and organisations, the individual and the collective, intention and action. (von Friedrichs Grängsjö & Gummesson, 2006) This balance is affected by the formal and informal rules that exist in the social context of the destination. Businesses are run in contexts in which social interaction takes place through a network of relationships such as in the case of the Hotel group in the town of Östersund. Underpinning the success in performing the balancing acts are a series of values and modes of behaviour. The fact that the hotels and the local government agreed on basic values, expressed as show enthusiasm, give time and contribute funds, for the group from the start has been critical to success.

With the background of the Hotel Groups seven years old networking experience supported by the EU Structural Funding the curiosity about if the social capital built up in the group during several years could function as a bridge between the entrepreneur's individual aims and the goals set by the collective once the public funding was removed. We were investigating what was happening when the well function spontaneous network were exposed to new members in to the network but also what happened when the EU funding was removed and the network had to function on their own?

The preliminary result tells us that to keep up a collaborative way of acting in a network of competitors in local proximity under changing conditions have to reflect on how to bond new members into the network. They also have to consider that new members come from different social contexts and are historically attached to other social settings, which call on reflection about the openness to new ideas and solutions. From a first interpretation of the interviews we have identified different prerequisites that affect the sustainability of the network:

*History* is important for the understanding of the network advantages. It is valuable to write a documentation of the processes in the network before new member entrance. Newcomers had difficulties to understand the benefit of individual hotels engagement in collective goals. According to the statistics the hotels have increased the number of reservations since the Hotel Group project started and the profit per reservation has increased. Though it was documented that the work of the Hotel Group had resulted in more visitors in the town and better profit to the hotels it was difficult for the new hotel owners/managers to connect this fact to the network performance.

*The organisational structure* has great impact on new network member ability to understand how the group is working. The Hotel Group experienced some problems during 2004 because of the organisational structure of the group. Originally women who got along very well dominated the group. The network was organised in a rather spontaneous way with discussions and consensus meetings. The network was closed from other but hotel owners and managers. When new members entered the network they had problems to understand the ‘unstructured’ way of organisation structure, which forced the group to take action towards a more structured way of working.

*The feeling of sharing common problems among the network members* is important to the members of the group. The network had some problems in motivating owners of the smaller hotels to take part in marketing activities towards the conference market because of the small hotels lack of conference feasibilities.

*Trust.* It seems to be of importance to make clear to the new entrepreneurs/managers that there are no hidden agendas in the work of the group. It seems to be difficult for new members to embrace the idea of trust between competitors.

The social capital is formed in interaction between people. In the town of Östersund the people meet with each other in different social settings. They meet at the golf course, in the slalom slope, in the shop, during social events, in children’s schools, neighbourhood etcetera. In a destination context like that the social capital is constructed when people meet and that will affect both bonding within and bridging between groups. The Hotel Group seems to function as a bridge between individual hotel owners/managers as they find that the outcome from the group brings them value of different kinds. Values they could not achieve on their own. It seems like the network also function as a bridge between public and private sector in the destination system of Östersund. The marketing efforts performed by the Hotel Group has led to a positive flow of visitors to the town which affect the economic flow in a positive way not only for the hotels themselves but for several other local businesses.

## **7. Conclusion**

The results indicate that it would not be too far to draw attention to the importance of the function of social capital in bonding individual network members. From the earlier discussion in the paper a tourist destination could be defined as a socially constructed arena where community members interact in different social settings. The spatial proximity of a tourist destination make people frequently comes across each other in person. The results indicate that social capital function as a bridge between the objectives of the tourist destination as a collective product and the objectives of each individual hotel. It helps bridging individualism and collectivism in the horizontal SMEs network and facilitates destination relationship marketing. But we still have to dig deeper into our case and analyse and interpret our material to be able to develop the discussion further. Hopefully the results will contribute to a new dominant logic providing a better understanding for marketing in what Gummesson calls, the “value-creation network society”. It is further argued that such a shift “implies that a science or discipline is given a new foundation, with new values, new assumptions or new methods.” (Gummesson, 2002, p. 309). In this paper it is suggested that theories of social capital may contribute to a logic providing such better understanding of contemporary tourist destination marketing practice.

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