

Role of local banks as potential primary stakeholders in community-type destinations

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Abstract

Purpose

Analysis of the role of rural credit unions in the local financial system and their position as potential primary stakeholders in community –type destinations.

Design/Methodology/Approach

Theoretical background: community-type destinations as network characterised by relationships to be understood through the network approach and stakeholder theory.

Research hypothesis: The capability of the territory to define an integrated tourist offer depends on intensity and structure of relationships among enterprises, public bodies and local communities that manage only a part of the resources and participate with distinct roles, capacities and power.

In community destinations the local credit system has a fundamental role, since it funds enterprises and takes part in local development projects. The rural credit unions are cooperative banks that – by statute – foster economic and social development of the territory.

Field research conducted in Trentino (a typical community-type destination) investigated if there exists a link between the role of the rural credit unions and the development of the tourist offer, to test if they are primary also stakeholders for the tourist development of the territory.

Findings

Rural credit unions are primary stakeholders for the development of traditional economic activities.

In the development of the tourist offer they have mainly a financing role. Signals of change in role are perceivable within the network: from financier to partner in the planning of initiatives and support activities of the tourist development.

Research limitations

Results are limited to the first step of a research over a single area of the territory.

Originality/Value

Possible re-positioning of local banks in the network and of tourist development projects.

Keywords

network, primary stakeholder, local banks, community-type destinations, local development

Type of paper: Research Paper

1. Aim, hypothesis and theoretical background of the research

The aim of the research is to analyse the role of the rural credit unions in the local financial system and their position as potential primary stakeholders in community-type destinations. These destinations are geographic areas in which resources and activities are widely spread among a great range of public and private actors. The tourist offer of the territory depends on their coordination (Murphy 1985; Kaspar 1995; Bieger 1998; Martini 2005).

The hypothesis at the basis of this research is that the level of integration of the offer depends on the intensity and structure of relationships among enterprises, public bodies, local communities and destination management organisations (DMO). This hypothesis highlights the critical point concerning the governance of community-type destinations and the need to identify mechanisms of coordination alternative to the market and the hierarchy (Franch 2002; Bieger 2005; Pechlaner and Raich 2005; Beritelli et al. 2007). Indeed, they appear inadequate for managing fragmented territorial systems in which the actors operate with individually diverse aims.

With reference to such problems, it is believed that the network approach (Håkansson 1987; Ford et al. 1986) and the stakeholder theory (Freeman 1984) offer suitable models and instruments for analysing the dynamics of relationships, identifying the nodes and ties of the network and evaluating the importance of the actors within the destination [1]. The community-type destinations can, indeed, be interpreted as networks characterized by a strong integration between economic and social dimension; form of collaborative and competitive relationships and actors who influence the development of the destination with different degrees of intensity.

The focus of the research is the credit system within this network of relationships, that is the role of local banks, and specifically of the rural credit unions, within the community-type destinations. The analysis examines if these banks are qualified as potential primary stakeholders, meaning to say, as partners in local tourist development projects that contribute to increase the competitiveness of the destination or if, instead, they limit their role to being financiers of specific initiatives or activities, even if on the territory.

The specific interest for the role of local banks within these destinations springs from some considerations concerning the development paths and the specificity of the enterprises that distinguish them. The community-type destinations are characterized by strong ties between economic and social background that has, on the one hand, fed the development path of endogenous type and, on the other, widely spread forms of entrepreneurship linked to a spontaneous model as defined by Nocifora (2001). These two factors, together with the prevalent SMTEs, have attributed to the local credit system a fundamental role for the development of the destinations.

Previous researches (Thomas 1998; Getz et al. 2004) underline that SMTEs use mostly forms of self-financing and short-term bank credits rather than other sources and forms of financing. With reference to the community-type destinations, this consideration becomes particularly important since for SMTEs the main interlocutor in the credit system is the local bank. From a scientific point of view it follows that local banks represent a privileged node to study the dynamics of financing and collaboration within the destination.

Concerning the strong link between enterprises and territory it can, furthermore, be observed that financial resources allotted by banks do not only sustain the investments

of the enterprises, but they also create virtuous circles of investments that contribute to the economic and social development of the community-type destinations as a whole. Consequently, the dynamics of financings within the territory reinforce both the capacity of the territory to attract investments and the interest of the local banks to reinvest their economic means in the territory.

Given these considerations, it is believed that the analysis of the role of local banks is of particular interest if referred to the rural credit union, meaning credit institutions that combine bank dimensions with that of cooperatives. The statute of the rural credit unions does, indeed, foresee that they should make investments that contribute to the economic and social development of the territory. These banks, therefore, further to being financiers of local enterprises, are also potential partners in projects of territorial development.

The research investigates the financial and collaborative relationships established by the rural credit unions with the actors of the destination. With reference to the *territorial development* the research analyses the binomial bank-cooperative that distinguishes the rural credit unions and examines the benefit for the enterprise and the territory and the importance of trust in the relationships.

With reference to *tourist development*, the research identifies the stakeholders involved in the network (reconstruction of the main nodes of the network and identification of strong and weak ties) and analyses the role of the bank as financier and partner in projects of local development.

The areas of interest of the research and the method applied for carrying out the field research are illustrated below.

2. Methodology

The research analyses the role of the rural credit unions in the Trentino (Italy). This choice indicates indeed the two topics object of the analysis. In fact, the Trentino is a typical example of community-type destination and within its territory the rural credit unions are representative of the local credit system since they hold more than 60% of the market shares.

The survey has foreseen two field researches [2]. The first, an explorative quantitative study, has concerned all the 48 rural credit unions in an online marketing survey. Questionnaires have been sent out in the period between July-October 2007, obtaining a redemption rate of 54%.

In this research we analyse the role of the rural credit unions taking into consideration three specific areas of interest:

1. *Territorial participation and initiatives*: the research analyses the involvement of local banks in organizational activities on local level and the importance given to them in terms of investments.
2. *Financial relationships*: the observation focuses on the *object* of the financing (new realisation vs. restructuring/enlarging existing activities), the *modality* of the financing (grant vs. amortization schedule), the *bodies* financed (public vs. private bodies) and the *economic categories* at which the financings are aimed.
3. *Collaborative relationships*: the research verifies if the banks establish with the economic categories collaborative partnerships too.

The second research, carried out through face to face interviews (qualitative enquiry), has involved 6 directors of the rural credit unions based on territories where tourism is a

fundamental activity for the local development [3]. The interviews carried out during December 2007 and January 2008 examine the role of the rural credit union as bank and cooperative, and they analyse the aspects concerning the three areas of interest that emerged from the previous online enquiry.

With reference to the first area of interest, the enquiry has analysed how many and what categories of actors are involved in territorial initiatives, in order to identify the dimensions and characteristics of the network. Dynamics are explored from which new initiatives arise (from within the bank or upon suggestion by third parties), verifying the role taken on by the rural credit unions (financier or partner).

Concerning the second and third area, the research investigates if the decision to offer financings to public and/or private bodies depends on a specifically strategy or, rather, on events contingent to the market. Such analysis makes it possible to verify the projects of the local actors as well as the activity for which financings have been requested and the possible collaboration of the rural credit unions.

Finally, this second phase of the research contains considerations concerning the 2002 reorganization of tourism in Trentino (see Provincial Law 11th June 2002, n.8), revealing opinions and modifications exchanged in the activities and relationships with local actors of the tourist chain (especially with the territorial tourist board).

3. Main Results

3.1 The banking and co-operative nature of the rural credit unions in the Trentino

The rural credit unions are aware of the double role (bank and cooperative) they are enacting and of the impact the investments have on the development of the territory and the local community. Compared to other bank institutions, the rural credit unions believe that the cooperative dimension requires a bigger effort and responsibility in managing the bank activities, more attention and sensitivity to the obvious and hidden needs of the territory, and a better orientation towards medium-long-term development projects. To combine bank and cooperative dimensions requires, therefore, the ability of the rural credit unions to give well balanced and efficient answers to the various stakeholders, the members, the clients and the local community.

For the rural credit unions the main advantage of being banks and cooperatives is the loyalty of their clients. On the one hand, the local banks think that the cooperative dimension reinforces the trust in the relations with the territory and, on the other, that it becomes a competitive advantage over present and potential competitors. Indeed, the cooperation is an element that qualifies and differentiates rural credit unions from other banks that are active on the territory. It also represents a barriers to entry for potential competitors that show – increasingly more often – an interest towards the banking sector in the Trentino.

Further to the advantages for the bank, the rural credit unions are also convinced that their presence brings benefits to the enterprises and the territory. For the enterprises the main advantages are linked to the facility with which relationships are established and the rapidity with which they meet their requests. Further to the integration between economic and social network that makes informal relationships much easier, the simple organizational model of the rural credit unions facilitates indeed the relationships of the enterprises, both with employees and top managers.

The rural credit unions consider that the rapidity with which they reply to requests for financings or participating in projects, is facilitated by decision-making processes taken within the territory requiring a much shorter time compared to traditional banks.

For the territory the advantages are linked to the investments that the rural credit unions grant to the economic and social development and the involvement of the local communities in the choices and the activities of the rural credit unions.

In general, the rural credit unions believe that the enterprises recognise the reliability and the engagement with which banking activities are carried out and they direct the investments to sustain the economic and social development of the territory. They presume, however, that the opinion of the enterprises could be influenced by the competitive dynamics that characterizes the local credit sector. The supremacy of rural credit unions restricts the opportunity for a comparison with other banks. As a result the activities and investments on the territory are sometimes considered “routine” and are not really considered and appreciated as a benefit.

3.2 Financial relationships between rural credit unions and local actors

The majority of the rural credit unions declares to financing a variety and a number of initiatives created within their own territory. On the basis of the sustained financings, the initiatives of prime importance to the rural credit unions are connected to promotion and sponsorship of the territory: about 80% of the interviewees considers them very important (see Fig.1). These are followed, with a decreasing level of importance, by cultural initiatives, sport events, town event/festival and restoration of public goods. The financings for the latter are, however, not very widely used. About 40% of the rural credit unions does not consider them important and more than 20% is unable to express an estimate (see infra par. 3.4).

“Take in Figure No.1”

The majority of the rural credit unions finances in equal measure new activities, rather than restorations and/or boosting of existing activities. The modality of financing employed by the rural credit unions is by more than half as a grant; about one out of four has an amortization schedule and about 17% declare that there are no differences in the allotted financings.

The financings are mostly aimed at private firms (48%) but there is a number of banks that admittedly makes no difference between the type of enterprise to be financed (40%). The remaining interviewees address their financings mainly to public bodies only.

The thorough examination of these results with the directors of the rural credit unions has revealed that the banks do not allot financings according to a strategy that favours one category of enterprise rather than an other. On the contrary, the selection is made according to the feasibility of the project demonstrated by the enterprises, to the validity of the proposals and according to the impacts generated upon the territory.

The survey shows that the financings allotted to private enterprises are distributed in a well balanced way between financings as a grant and financings with an amortization schedule. There is, however, a different situation for financings allotted to public enterprises. In this case two thirds of the rural credit unions make grant financings.

Concerning the economic categories that are financed, sports associations, cultural associations and local institutions are actors to which the majority of banks allots financings (see Fig.2). These are followed by tourist boards and hotel keepers. About 60% of the rural credit unions allots financings to farmers and cableway operators. Less involved are banks that finance tradesmen, restaurant keepers and other actors involved in tourist activities (such as, for instance, organizers of events and local traditional fairs, local committees, associations of volunteers and consortia).

“Take in Figure No.2”

3.3 Collaborative relationship between rural credit unions and local actors

Sports and cultural associations are not only the categories economically most involved in the processes of financing by the rural credit unions, but also the actors with which the majority of banks entertains collaborative relationships. The order of the economic categories with which the rural credit unions collaborate does not show marked differences with those financed (see Fig.3). Exception are the categories of tradesmen, cableway operators, hotel and restaurant keepers for which some positions change (for example, hotel keepers are in the fifth position among categories that receive financings and are, on the other hand, in seventh position concerning the collaborative relationship).

“Take in Figure No.3”

The potential homogeneity in the order of the actors does not show up in equal measure in the part of rural credit unions that finance or collaborate with such categories. In general, it can be observed that the involvement of the rural credit unions is higher in the financial area than in the collaborative one (see Tab.1). Such result is particularly evident with regard to the category of hotel and restaurant keepers and cableway operators. For them the involvement of the rural credit unions in activities of financing is superior to that of collaboration by 26%, 22% and 17% respectively.

“Take in Table No.1”

In the case of cultural associations, tourist boards, local institutions and tradesmen the relationship is, with less evident difference, quite the opposite. Indeed, with these categories the rural credit unions are more involved in a collaborative relationship.

The analysis of the financial and collaborative measure clarifies how the rural credit unions that allot financings are *at the same time* also engaged in a collaborative relationship. The analysis so far has highlighted the link between rural credit unions and territorial actors but does not show if they are *at the same time* involved in both activities.

Sport and cultural associations are the economic categories to which all rural credit unions allot financings and with which they are also involved in collaborative relationships. Furthermore, the ties between rural credit unions, tourist boards and local institutions appear to be particularly structured. In such cases, the rural credit unions involved both in financial and collaborative relationships are 94% and 90% respectively (see Tab.2).

Different considerations emerge, however, from the analysis of the relationships of the rural credit unions with the majority of actors involved in the tourist chain, that is: tradesmen, cableway operators, farmers, hotel keepers and actors who carry out other activities linked to tourism. Even if the majority of the rural credit unions that allots financings is interested in a collaborative relationship, the involvement of the bank is not spread in the same measure. Indeed, concerning these categories the rural credit unions, involved also in collaborative relationships, are about two third of those that allot financings.

Restaurant keepers are the category of actors with which the rural credit unions have the least contact. The rural credit institutions that entertain also collaborative relations are about 45% of those that allot them financings.

“Take in Table No.2”

The analysis of the collaborative relationships only, highlights the fact that the ties between bank and local actors develop mainly when there is also a financial relationship. This is the scenario that interests the majority of economic categories involved in the tourist chain (see Tab.3). Only local institutions and cultural associations are a marked exception in such a comparison. The rural credit unions involved in activities of collaboration only with these categories are, indeed, 75% and 67% respectively. More limited is, on the other hand, the quota of rural credit unions that creates collaborative relations with tradesmen, tourist boards and farmers, independently from an existing financial relationship.

“Take in Table No.3”

Finally, the research has analysed the collaborative relationships between rural credit unions and bodies for local development. The highest intensity of collaboration can be noted in the activities of sponsorship and promotion. Worthy of note is also the cooperation for projecting and organizing events. The commercialization activity like, for instance the advance sale of tickets, is of lesser importance, but it remains a service that the rural credit unions continue by tradition to carry out.

3.4 The role of the rural credit unions as financiers of and partners in territorial initiatives and identification of the network

The interviews of the directors confirm what has emerged from the online research. At present the role of the rural credit unions is mostly qualified as financier of initiatives and not as partners in territorial projects. This result does not qualify the rural credit unions as actual primary stakeholders of the tourist development of the destination. This consideration is further reinforced by the involvement of banks in tourist initiatives with short term projects and by having a predominant role as participant and not as first player.

Indeed, tourist initiatives are more likely to be created outside and, in particular, upon proposals by the local tourist board. In contrast, the initiatives suggested by the rural credit unions are more likely to be correlated to cultural and training initiatives. The engagement of the rural credit unions for the economic and social development of the

territory does not, at present, seem to earn the conviction that the tourist sector could become a means for attaining such objective.

However, interesting examples of local banks can be observed that are partners both in initiatives of support to local development (referring especially to cultural events and training activities) and in pure tourist activities.

Initiatives in which the rural credit unions are more closely involved are activities of promotion and sponsorship of the territory through which they seek the involvement of the local community. Such activities are the expression of interest of the rural credit unions in the territory and are often accompanied by short term engagements. Therefore, at present the medium term projects are for the rural credit unions a kind of challenge and an aim to reach, rather than an attained objective.

The lesser involvement of the banks in creating and restoring public goods, however, is justified by the investments and risks that such initiatives imply, by the complex bureaucratic procedures and the times of execution.

In general, initiatives are promoted by the rural credit unions through traditional and online communication and stem either from proposals by local actors or from subjects internal to the bank.

Concerning the economic categories to which the rural credit unions address financings, the qualitative enquiry confirms the same scenario that emerged from the previous research (cfr par. 3.2 and 3.3).

Furthermore, it can be observed that the actors most interested in the financial relationships are not necessarily those that benefit from the largest contributions. Indeed, the rural credit institutions allot in general to sport and cultural associations more restricted financings than to other actors such as, for instance, ski lift companies.

Concerning the object of the collaborative relationships, the qualitative research confirms the importance of the promotional and sponsoring activities. Furthermore, it is evident that the collaborative relationships are mainly developed with operators involved in distinctive economic activities of the local system or in specific attraction for the territory. Such examples are the collaboration of the rural credit unions with farmers for the Valsugana area; cableway operators for Folgaria; the thermal spas of Comano; and the tradesmen of the “Christmas Market” of Levico.

Regarding the territorial initiatives that involve the rural credit union as a partner, the qualitative research highlights that the network in which it operates is composed of 4-5 nodes consisting mainly of territorial tourist boards, public entities (local and/or provincial), associations of the category and groups of operators. Among the last two categories the actors of reference are hotel keepers and cableway operators. Even if limited to a few nodes only, the network involves the main categories of tourist chain of the community-type destination in the Trentino.

Within the network, the public entity and the local tourist boards are nodes of reference for the rural credit unions to which they can presumably link strong ties. The other categories, however, even if present in the network, are not involved with the same frequency and show characteristics that recall mostly weak ties, made evident by the network theory.

3.5 Results of and prospects for the rural credit unions concerning the territorial tourist development

The rural credit unions are mostly satisfied with the results attained up to now. For the near future they foresee investments both in initiatives and support of local development as well as in activities contributing to increase the competitiveness of the territory as tourist destination.

Concerning the former, the aim is to invest mainly in activities and support of the training of human capital and to find possible partners for furnishing raw materials and services such as, for instance, energy.

Concerning initiatives and support of tourist development, the proposal is to contribute and increase the prestige of the territory and to extend the tourist season. These aims, however, are part of a scenario about which the rural credit unions express some scepticism concerning the reorganization of the tourist sector in the Trentino and the activities of local tourist boards. In fact, local banks do not notice changes and positive results following the privatization of the territorial tourist boards but, rather, disorientation and lack of project making. These critical points do not concern all destinations in the same measure, but where they are present they can often be attributed to a lack of strong leadership or to the non-recognition of it on behalf of tourist operators.

4. Conclusions

The research highlights the importance of the rural credit unions for the local development in Trentino. The analysis of the financing and collaborative relationships make it clear that the role of the rural credit unions for the economic and social development of the territory is different from what is being done for the tourist development of the community-type destination.

Concerning the *territorial development*, it can be observed that the role of the rural credit unions is fundamental in the choice of investments and in the definition of the conditions of financings for supporting entrepreneurship and the local community, while reinforcing the relationship of trust among the actors.

These ties, on the one hand, intensify the integration among economic and social dimensions of the community-type destination, on the other, become a competitive advantage for the bank, bringing benefits to members, clients and the entire territory.

In the light of such results we believe that the rural credit unions are qualified as primary stakeholders of the territorial development. Indeed, without the financial and projecting contribution of the rural credit unions the survival of some economic categories and also of a wider local development would be strongly compromised.

With reference to *tourist development* a scenario becomes clear in which the role of the rural credit unions assumes a different valence and the role of financier prevails over that of partner.

In general, the rural credit unions do not qualify as primary stakeholders in the local tourist development. The research does not highlight an involvement in projects that contribute to increase the competitiveness of the destination and there is no evidence of conviction on behalf of the rural credit unions that investments in the tourist sector could act as first player for the development of the territory.

The banks establish financial and collaborative relationships with the local actors of the tourist chain, but *a)* there are more banks involved in financial relationships and *b)*

collaborative relationships concerns mainly promotional initiatives and sponsorship that do not require heavy involvement, do not imply medium to long-term projects and do not look upon the bank as first player. Exceptions are local institutions and cultural associations with which, however, the majority of the rural credit unions tends to collaborate, even in the absence of financings. This result could be interpreted in the light of the objectives that are shared by the local bank (in quality of co-operative) and these actors, in turn engaged in the protection and in putting to advantage the heritage and the human and social capital of the territory.

In some territorial areas, however, the rural credit union is also involved in more wide-reaching tourist projects. In these areas the role of the rural credit unions is inclined to be that of primary stakeholder since the financial and projecting support is fundamental for carrying out the project.

The rural credit union puts itself within a network in which the public entity (local or provincial) and the territorial tourist board are the privileged interlocutors with whom there are stronger ties. In the network there are also to be found other representative categories of actors fundamental for the competitiveness of the community-type destination (accommodation and cableway operators). With them, however, the ties are weaker.

These ties can be led back to the role that the destination management organizations (DMO) have in the destinations that are more dynamic or more oriented towards an integrated tourist offer. Indeed, in these cases the DMO takes on the role of pivot of the tourist development of the destination and is representative of the actors involved in the tourist chain. The finalized projects carried out in partnership with the rural credit union could, therefore, be the result of an efficient top-down and bottom-up coordination, meaning that the projects in which the DMO is the carrier of initiatives and projects matured together and shared with the local actors.

In these cases the organizational model that characterizes the rural credit union and the rapidity with which it usually deals with requests, are elements that facilitate the relationships and potentially favour the consolidation of the local bank as primary stakeholder for the tourist development of the territory.

This hypothesis, however, needs to be verified in order to be confirmed. To such effect, the future steps of the research (in progress at present) will examine the ties and nodes of the network, taking into consideration both the role of the DMO and the other actors that contribute to the offer of the community-type destination.

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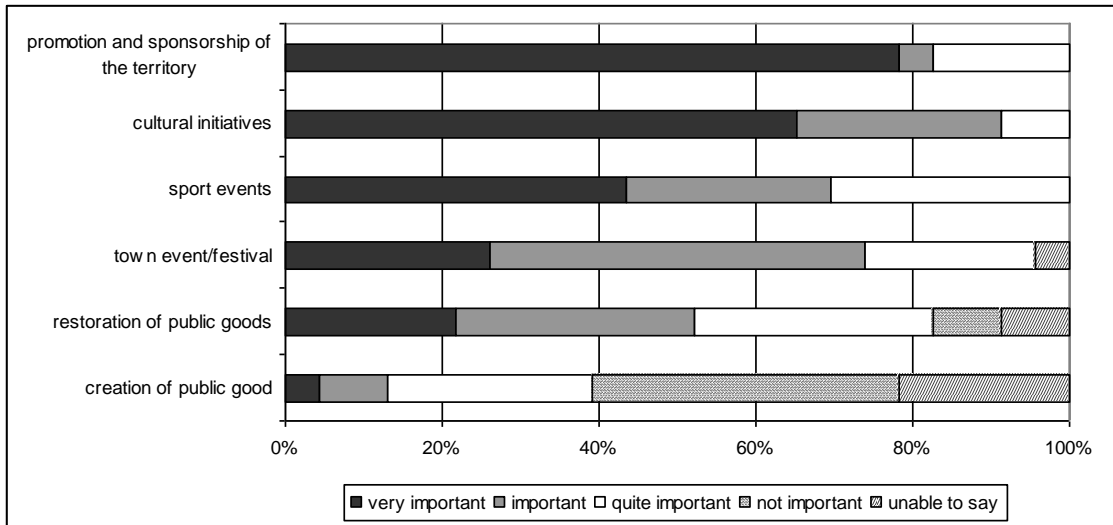
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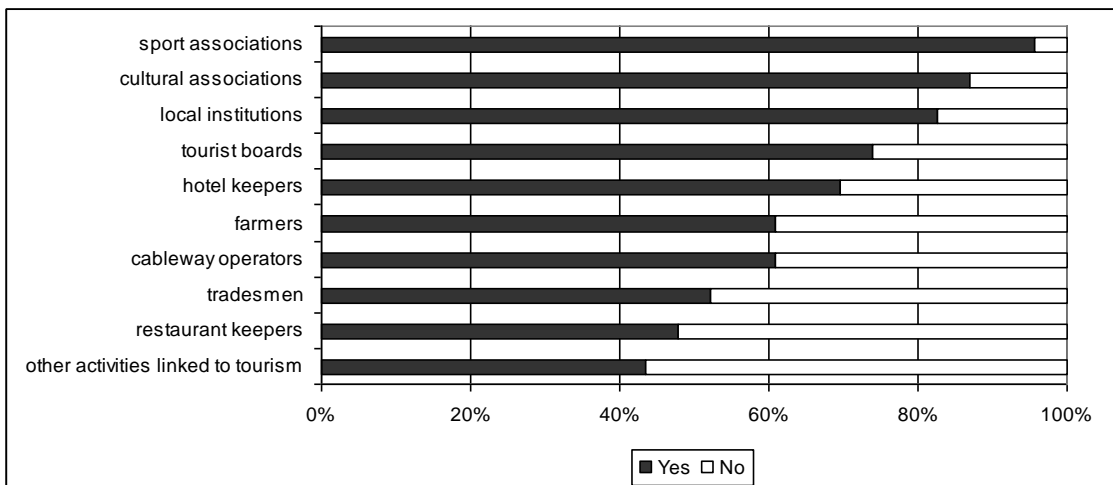
Figures

Figure 1 – The importance attributed to initiatives according to the investments sustained by the rural credit unions



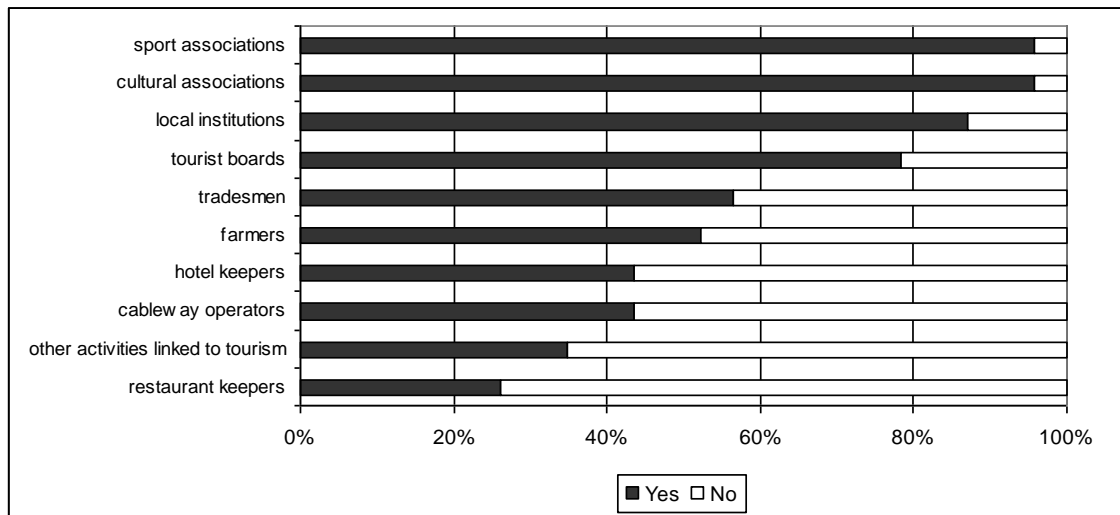
Source: our elaboration

Figure 2 - Local actors with which the rural credit unions entertain financial relationships



Source: our elaboration

Figure 3 - Local actors with which the rural credit unions entertain collaborative relationships



Source: our elaboration

Tables

Table 1 – Comparison between rural credit unions that entertain financial and collaborative relationships

Economic Categories	Financial relationships*	Collaborative relationships*	Δ Fin-Coll
hotel keepers	69.6%	43.5%	26.1%
restaurant keepers	47.8%	26.1%	21.7%
cableway operators	60.9%	43.5%	17.4%
farmers	60.9%	52.2%	8.7%
other activities linked to tourism	43.5%	34.8%	8.7%
sport associations	95.7%	95.7%	0.0%
tourist boards	73.9%	78.3%	-4.3%
tradesmen	52.2%	56.5%	-4.3%
local institutions	82.6%	87.0%	-4.3%
cultural associations	87.0%	95.7%	-8.7%

The percentage values refer only to rural credit unions that have declared to finance/collaborate with the economic categories indicated.

Source: our elaboration

Table 2 - Rural credit unions involved in financial and collaborative relations

Economic Categories	%
sport associations	100.0
cultural associations	100.0
tourist boards	94.1
local institutions	89.5
other activities linked to tourism	70.0
tradesmen	66.7
cableway operators	64.3
farmers	64.3
hotel keepers	62.5
restaurant keepers	45.5

Source: our elaboration

Table 3 – Rural credit unions involved in collaborative relationships only

Economic Categories	%
local institutions	75.0
cultural associations	66.7
tradesmen	45.5
tourist boards	33.3
farmers	33.3
cableway operators	11.1
restaurant keepers	8.3
other activities linked to tourism	7.7
sport associations	0.0
hotel keepers	0.0

Source: our elaboration

[1] The possibility to apply the network approach and the stakeholder theory to tourism is widely recognised in literature. For further reference to the network theory see Lemmetyinen and Go (2009), March and Wilkinson (2009). For further reference to the stakeholder approach see Robson and Robson (1996), Sautter and Leisen (1999), Bramwell and Sharman (1999), Byrd (2007), d'Angella and Go (2009).

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[3] The interviewees have involved the directors of the rural credit unions of Folgaria, Valle di Fiemme, Brentonico, Pergine Valsugana, Levico Terme and Giudicarie-Paganella-Valsabbia.