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Social capital and governance for sustainable rural development

Though policy openings for support from the ‘new rural paradigm’ look promising, market access through sustainability-led economic organisations in fragmented rural areas is not easy. This paper analyses the implications of the interactive embedded governance model framed by the structural, cognitive and relational dimensions of social capital and hence the firms’ ability to engage with networked stakeholders in bottom-up knowledge-sharing for innovation. We show how, in the case of three marginal rural villages in the province of Trentino, Italy, this approach was used to raise stakeholders’ awareness that the local identity and heritage resources represent assets that given appropriate knowledge sharing could be converted into ‘authentic’ tourism products. The study illustrates the critical importance of such non-economic factors for achieving sustainable rural development.

Keywords: social capital, embedded governance, stakeholders’ engagement, knowledge sharing, market failures, sustainable rural tourism

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Introduction

The theme of this paper lies in the overlap between different narratives which have so far developed largely independently from each other. Firstly, the paradigm of maximisation assumes that economic growth is the only way forward; thereby ignoring the underlying complexity of socio-ecological systems. Secondly, the paradigm of sufficiency assumes an increasing natural resource scarcity and diversity to be a better source of resilience for the variety of systems. However, economic, social and cultural barriers to a transition towards sufficiency are typically not explicitly dealt with. Thirdly, the ‘new rural paradigm’ (OECD, 2006) looks at a shift from a sectoral to a territorial policy approach, creating openings for the integration of the various sectoral policies at local, regional and (supra-) national levels. This suggests that four external drivers impact rural development particularly: globalisation and structural shifts in the economy, the transition towards an experience economy, the knowledge-based society and climate change. Global forces have created the regional specialisation manifest in economic clusters, leading to inequalities with national rural areas. This relegates the role of national governments to the passive provision of infrastructures and causes rural areas to suffer from fragmentation in multiple ways: socially, economically, environmentally and politically. And they resemble a quasi-market, where multi-stakeholder interests and agendas display different backgrounds, aims, roles, competences and unevenly distributed power relations (Keller, 1998).

The ‘progression of economic value’ (Pine and Gilmore, 1998) – from the extraction of commodities, the production of goods and the delivery of services to creating experiences – can be understood as the adding of experiences to existing goods and services. However, a holistic approach to tourism development should ensure that realising tourist experiences takes into account the demands from other sectors. It is essential to draw on local ‘cultural’ production (Rifkin, 2000) to ensure that tourist experiential offerings coincide with the needs of the locality. The application of this principle would contribute sustainable patterns of production and consumption and the positioning of a specific rural area in a distinct way in comparison to competitors.

The issue of climate change has resulted in heated debates about responses seen to foster short-term economic disparity, undermine long-term sustainability and increase the risk of regional imbalances for the peripheral areas. We assume that the environmental context represents an important variable in sustainability processes and therefore refer to a more specific definition. Sustainability integrates natural systems with human patterns and celebrates continuity, uniqueness and place making (Early, 1993). In the sustainability context three overlapping social, cognitive and structural dimensions appear. With them are potential tensions which impede the leveraging of rural economic and environmental assets for tourism production (Inskeep, 1991).

In today’s knowledge-based economy no rural area can be an island. Each is locked into a complex and dynamic network of multi-stakeholder relationships, including tourists, suppliers, business partners and government. Cultural resources and heritage fit modern demands, many of which are associated with rural tourism. The countryside holds significance for many urban dwellers. While this varies from one society to the next, the meaning of the countryside may be captured in the scarcity of the natural resource. Agriculture, forest production, wildlife habitat and catchment of water, settlement and recreation are indispensable for many essential human activities. We assume that both the intrinsic qualities of rural areas and the opportunity to engage in rural recreational activities motivate and will lead to an increase in urban dwellers’ demand for rural tourism. Rural areas can lever rural experiences as a label for attracting tourists to learn more about rural life through destinations and events featuring nature and culture: past, present and future.

Hence there exists an urgent need to improve the coordination of sectoral policies at both the central government level and the local level.

The defining shift in market structure from top-down driven demand manipulation to dynamic networks justifies the consideration of the knowledge infrastructure’s role in the socio-economic regeneration of rural regions. Specifically, of how to improve efficient decision making and transform knowledge into capabilities for integrating cognitive, social and infrastructural planning to serve sustainable tourism and rural development.

Towards this end, we construct a theoretical model for the embedded governance of knowledge sharing processes that borrows insights from two conceptual realms. These are, firstly, behaviour location theory (Simon, 1957; Pred, 1967), which postulates that entrepreneurs make decisions based on a number of limited options and recognises the potential significance of non-economic reasons in location behaviour, including emotional, cultural, historical ties with a particular region; and secondly, institutional theory and the concept of the 'industrial district' (Amin, 1999), which on the foundations of informal norms and networked interaction make a community's stakeholders productive (Evans, 1996).

Though policy openings for support from the 'new rural paradigm' look promising, market access through knowledge sharing is not easy owing to characteristics of knowledge from practice based epistemology. Knowledge is multidimensional as illustrated for example by the interconnectedness of 'agricultural knowledge and *information* systems' (AKIS). Knowledge is embodied in people, many of whom have limited understanding of the feedback loops, in particular the links and interactions between a set of rural stakeholders. Knowledge is contestable, which implies that stakeholders may engage in knowledge sharing, but are ill-prepared or unwilling to deal with the complexity of interconnected and highly dynamic issues. Knowledge is culturally embedded. Di Iacovo and O'Connor (2009; cited in EU SCAR, 2012) found that rural entrepreneurship culture suffers from the weakness of limited links 'with the official AKIS'. Tacit and explicit knowledge are inseparable. For example, EU SCAR (2012) makes just seven brief references to rural tourism. This suggests that the knowledge of rural tourism continues to be governed largely independently from the agricultural knowledge domain. In turn, this might hamper the effective use of tourism as a tool for stimulating the agricultural economy.

Traditionally, national, top-down approaches to knowledge sharing impeded stakeholders' ability to apply tacit and explicit knowledge to establish a critical mass for effective local private-public partnership processes (Perkmann, 2002). Today, stakeholders must identify the limitations of their knowledge and comprehend the world not only on the local, but also the regional, national and international level, involving multiple layers of rule-making institutions and power (Hess and Ostrom, 2001).

Towards this end the paper draws on social capital theory (Inkpen and Tsang, 2005) and the embedded governance model (Go and Trunfio, 2011a) as a mechanism to overcome market failures. It then applies these concepts to a case study, funded by the European Regional Development Fund (2007-2013), as part of the Project *Listen to the Voice of Villages*, aimed at enhancing the competitiveness and attractiveness of three of Trentino's mountain villages situated in a region of northeast Italy.

Modelling governance

The term 'government' implies the exercise of political authority over the actions and affairs of people. Instead, our study refers to 'governance', namely the way rules are set and implemented for the process of decision making and implementation (UNESCAP, 2009), involving government, the private sector and the civil society. UNESCAP (2009) refers to 'good governance', the characteristics of which are: accountable; transparent; responsive; equitable and inclusive; effective and efficient; follows the rule of law; participatory; and consensus oriented. This implies the inclusion of the voices of the vulnerable in society in the decision making process, being responsive to the 'present and future needs of society'.

Modelling governance in rural areas is relevant for numerous reasons. Firstly, in many parts of Europe there has been a historical tendency to develop rural regions using a top-down-approach based on established relationships between national, regional and local government. However, this top-down version has failed to coordinate complex stakeholder interdependences of modern society (Caalders, 2003). Secondly, under conditions of global competition rural areas are increasingly among the vulnerable stakeholders in society whose voice may be excluded in favour of other pressing government challenges. However, consequent to decentralisation such classic forms of government based on clear-cut arrangements between administrative levels, policy sectors and the public, and the private domain have proven increasingly *inefficient and ineffective* for knowledge sharing. Simultaneously, decentralisation shifts power from the national to the supranational (EU) and regional scales (Anderson, 1996) and opens the door to actors who wish to *participate in making decisions* that matter to them so as to more effectively meet emerging challenges (Dwyer *et al*., 2009).

Tensions and conflicts in decision making and implementation usually arise from known dichotomies and differing objectives that are often closely linked to *accountability structures*. The decision making process involves, increasingly, foreign interests (e.g. investors) and local actors and requires the levering of an interactive governance system (Kooiman *et al*., 2008) which coheres with reference to the governance concept understood as 'the self-organising, inter-organisational network characterised by interdependence, resource exchange, rules of game and autonomy from the state' (Rhodes, 1997, p.15).

Rural communities can be understood as multi-layer territorial systems (of innovation) that bring together knowledge-intensive activities, institutions for knowledge sharing to enhance their capability for social change and institutionalised learning metrics (Murphy, 2012). To be *responsive* to the present and future needs of society, multi-stakeholder interests must come together in a 'common agenda' and the practice of 'organisational self-disclosure' (*transparency* and *risk*) and 'organisational/stakeholder engagement' (*dialogue* and *access*) (Prahalad and Ramaswamy, 2004).

Public calls for more transparency have contributed to the emergence of more flexible forms of governance (Go and Trunfio, 2011b). These allow an interactive-non-linear model of knowledge sharing and preserving the bottom-up democracy and mobilising *consensus-oriented* decision making. They also serve as an 'information filter' to identify both the process and areas of tensions and coordinate the multi-stakeholder innovation transfer process (Leeuwis and van den Ban, 2004). The latter represent a variety of collective and individual roles, with public and private backgrounds and often contradicting agendas which can impede knowledge transfer (Prytherch and Huntoon, 2005).

Therefore, understanding that the production of rural space is a search for the reconciliation between mental space and physical space (Lefebvre, 1991) is a prerequisite to remodelling governance. This should encourage knowledge sharing processes designed to enhance sustainable rural development. Go and Trunfio (2011a) introduced the concept of embedded governance; a form of interactive governance system, which combines top-down approaches based on the political-institutional power following *the rule of law* and the bottom-up perspective based on local stakeholder interactions, *including the voices* of the vulnerable in society in decision making to perform in an *equitable* way. In particular, embedded governance can serve as a mechanism (Go and Trunfio, 2011c), firstly, to help stakeholders cope with their limited knowledge by mapping the opportunities in networks to identify the most viable partners and their role in value-creating networks. Secondly, to determine the potential pros and cons of increased networked integration, based on the rural policy regime, and the roles private sector partners can play to transform micro-specialised competences into 'value-in-context' (Vargo and Lush, 2008) for creating attitude and behavioural change among stakeholders. Thirdly, to assess the supporting interconnectedness relative to partnership knowledge sharing and innovation (Ward and Brown, 2009) for sustainable rural development.

Under conditions of global competitiveness, knowledge sharing plays a critical role for promoting sustainable rural development (Cooke *et al*., 2006; EC, 2006; OECD, 2006). Behavioural science reminds us that knowledge sharing is about people. Research has generated evidence that social capital and trustworthy relationships are essential to create the conditions which motivate stakeholders to coordinate knowledge sharing processes.

Comprehending social capital as a change conditioner

The participation of stakeholders is necessary for sustainable rural development to succeed. In the post-Fordist era social capital plays a critical role in mediating knowledge transfer aimed at sustainable rural development (Morgan, 1997). Top-down approaches to knowledge sharing have proven relatively ineffective. Therefore, social capital depends on the specific conditions that govern knowledge transfer interaction within diverse types of networks. These can simultaneously enable and restrict its stakeholders. Inkpen and Tsang (2005) distinguish conditions of social capital, including three network types in a matrix format: *intra-corporate network*, *strategic alliance* and *industrial district*, and three key social capital dimensions. These are the s*tructural social capital* dilemma involving networked actors' relationship patterns, including network ties, configuration and stability; c*ognitive social capital,* e.g. shared goals and culture; and *relational social capital*, which exists when reciprocity norms and trusting interactions occur. In the next section we test the social capital theory in relation to the embedded governance and rural tourism development of Trentino's mountain villages.

Case study: Rural tourism development of Trentino's mountain villages

The autonomous province of Trentino (Italy) is mountainous, known for the Dolomites, which are part of the Northeast Italian Alps. The province covers an area of 6,214 km^2, has a population of 524,826 (2010) and is composed of 217 municipalities. While agriculture remains important, tourism is the mainstay of the provincial economy contributing to the wellbeing and quality of life. Five million tourists (about 1.6 million of whom are foreign) annually visit the province of Trentino's main urban centres and well-known tourism destinations. Tourism provides more than 7 per cent of the area's added value, generating opportunities for growth and innovation in numerous sectors.

Three small and well circumscribed villages of Trentino – Tesino Vanoi, Valle dei Mocheni and Valle del Chiese – comprise our case study. In contrast with the province, their rural tourism potential derived from their natural, cultural and historical assets remains unexploited so far. This is mainly due to the severity of the market failures which characterise rural areas and which cannot be overcome by for-profit firms without the intervention of third sector organisations (TSOs) (Valentinov and Baum, 2008). In this case these are, firstly, social and economic marginalisation, unemployment, geographical dispersion, population sparsity and outmigration. Secondly, due in part to an economy fragmented by micro, small- or medium-size enterprises that operate in traditional sectors such as forestry, agriculture, zoo-technics, wood art and crafts; and thirdly, rural traditions, values and behaviours that remain at the core of the local identity and everyday life. These three villages represent an emerging destination which has not entered the early stages of Butler's (1980) product life cycle. The same is evident, for example, in their limited receptive capacity which attracts mainly domestic, family-oriented and elderly tourists to engage in nature, cultural and outdoor sport activities. In turn, this prohibits the exploitation of local heritage as a source for economic development by specialised local entrepreneurs who mobilise existing knowledge for profit, thereby contributing to employment growth. Tourism has remained a marginal activity, leading to an exodus of young and dynamic community members.

Simultaneously, shifts brought about by ICT and transportation infrastructure have altered production and consumption patterns, contributing to the increasing fragmentation of Central European rural areas at multiple scales: economically, socially, environmentally and politically. The need for innovation and economic development on the one hand and the desire by insiders to maintain their rural traditions on the other has flagged the issue of how to establish a balance between preserving natural and cultural heritage for wellbeing while presenting these resources to satisfy modern tourist demands. This argument reveals not only the institutional economics rationale behind rural TSOs, but also lends theoretical support to policies promoting TSOs intervention in rural development (Valentinov and Baum, 2008) through, for example, 'good' governance in support of local sustainable rural development policies as envisioned in the three-year-European Project *Listen to the Voice of Villages* (LVV, www.listentothevoiceofvillages.org) (Della Lucia and Martini, 2012).

The role of network organisations in the rural context has received attention both from governments and researchers. Policy openings for support as reflected in the 'new rural paradigm' seem promising, but the change process has proven difficult owing to: (a) market failures which are particularly severe in rural areas; (b) a lack of insight into the main characteristics of social capital dimensions (structural, cognitive and relational) in relation to the related network type found in this case; and (c) limitations of rural knowledge to understand the conditions of the surrounding world and how to capitalise on the embedded governance model to support stakeholders in service provisioning in an integrated, sustainable manner.

The LVV project, which was co-financed by the European Regional Development Fund (around EUR 1.9 billion out of around EUR 2.4 billion of total budget), was developed in 2008 within the 'cultural heritage and creative resources' theme and involved rural areas in six central European countries (Northern Italy, Austria, Germany, Czech Republic, Poland and Slovenia). It focused on helping the stakeholders of the three villages by enhancing the region's competitiveness and attractiveness through the coordination of public-private cooperation for sustainable tourism. The research methodology was divided into two steps. The first applies Inkpen and Tsang's (2005) framework to identify the main characteristics of both the social capital dimensions (structural, cognitive and relational) relative to the case study area's related network type. Building on social capital theory and knowledge sharing, the second aims to verify how the embedded governance model developed by the European project supported integrated, sustainable rural tourism development. The research combined multiple sources of evidence: desk analysis, archival records, both unpublished and published studies on the related *Listen European* project (Della Lucia and Martini, 2012; Martini and Buffa, 2012) and primary data collected from critical stakeholders involved in rural sustainable development.

Three dimensional outcomes

The case study outcomes centre on the characteristics assumed by three social capital dimensions (Inkpen and Tsang, 2005). These are reflected in the rural activities, traditional society structures and lifestyle, and result in the assimilation of the so called *industrial district* network type. Industrial districts are defined as networks comprising independent small and medium-size firms operating in the same or related market segment. Institutional economics in industrial districts result not only from spatial agglomeration and productive specialisation, but particularly consider the relevance of the interaction between institutions and social capital formation (Granovetter, 1985; Putnam, 1993; Fukuyama, 1994). But interactions to derive benefits from external economies of scale and are complex, because firms which share a geographical locality are defined both by environmental and historical conditions scope (Brown and Hendry, 1998; Storper, 1993).

Before examining the modelling of social capital in networks it is necessary to clarify some ideas that will affect the governance of local development. Based on the assumption that a vertical division of labour among the members may or may not be present and their roles and relationships to achieve specified goals are unclearly defined and not well organised, we can outline the analytical outcomes along three dimensions as follows.

The analysis of the *structural dimension* of social capital (network ties, configuration and stability) shows that nonhierarchical and dense ties exist among the local community members. The spatial proximity results in interpersonal interactions among community members developed through direct, informal and long-term relationships which also could facilitate inter-firm interactions and knowledge exchange. The social structural dimension is stronger than the economic dimension, however some cliques of firms with strong ties are presently represented by professional associations (e.g. hotel/restaurant owners, agricultural cooperatives, and associations that promote accommodation in mountain/rural estates). The local economic development level however results in the continuous exodus of host community members, who take with them not only personal contacts but also knowledge. So, at the structural level there is ample room for improvement.

The *cognitive dimension* of social capital suffers from the fragmentation inherent in the heterogeneity of local stakeholders and the sectoral diversification, manifest in diverse aims, interests and competences. The same implies that stakeholders do not share a cooperative logic for local development. A corollary of this is that contradictions are present which impede destination management organisations (DMOs) from taking effective actions to prove the benefits of cooperation particularly with regard to strengthening the position of other local stakeholders. For example, in Tesino Vanoi, comprised of two contiguous territories, there exist two DMOs divided by their different tourism development governance approaches. In turn, such a gap creates challenges for the way joint projects are coordinated and controlled.

At the cognitive scale, information and education could help to increase the awareness that networked knowledge sharing and shared goals can bring about a virtuous cycle of value adding processes. However, the governance of rural governance necessitates a more integrated capacity (Go and Govers, 2000) to bring stakeholders, both local and non-local, together.

The area's traditional social structures and shared cultural lifestyle manifest a strong 'sense of belonging to the identity of place', tacit knowledge, shared values and norms represent potential for exploitation. These can be levered for trust building among stakeholders in a variety of roles to serve as a process-based driver for generating and enhancing the *relational dimension* of social capital which is critical for informal knowledge and skill sharing encompassing various styles and models among networked firms. Governed processes require a common agenda, which not only reflects objectives and interests but also specifies the roles and tasks of the different local network members. In this case study we analyse whether the relational dimension is embedded within trustworthy relationships and reciprocal behaviour, which bring about the institutional conditions for firms to participate in knowledge transfer. The area reveals weaknesses in social capital formation, particularly at the cognitive dimension. In turn, the latter affects the potential of the relational and structural dimensions to contribute towards improving the institutional conditions. These enact the behavioural change that would enable the three villages to jointly create value, and contribute to arresting the cycle of socio-economic marginalisation, unemployment and depopulation.

The strength of social capital is particularly manifest in the shared culture, tacit knowledge heritage, and the value of trust as collective and individual capital. However, it remains largely confined within the social dimension of interpersonal interactions of the case stakeholders who take their own resources into account while neglecting to consider their limited discretion (Ford *et al*., 2003), thereby acting independently. Instead, capacity building within the historically and bounded institutions of the area involves interdependent processes between firms and TSOs (e.g. the EU) to overcome market failures. This, arguably, increases the importance of inter-organisational knowledge sharing processes. The next section examines governance as a mechanism to enable the coordination of multi-level networked stakeholders' relationships and to reduce incidence of free-ridership.

Governance tools

Prompted by the observation that top-down governance approaches failed local stakeholders' participation in the decision making process, the embedded governance model (Go and Trunfio, 2011b) draws on behavioural location theory and institutional theory. These assume, respectively, that decision makers have limited access to knowledge and that economic activities are embedded in ongoing social institutions (Granovetter, 1985), respectively. Furthermore, the embedded governance model combines a top-down and a bottom-up perspective, providing the inputs and the consultation and coordination needed to address the developmental process and create the conditions which contribute to endogenous, self-sufficient and successful processes.

In the project, governance model was applied to create Task Forces. These 'round tables' comprised small groups of stakeholders (10/12 actors) representing the project partners – the Autonomous Province of Trentino, University of Trento and Trentino School of Management and the local DMOs. These 'meta-management bodies' are charged to use an institutional economic approach for engaging participatory decision making to overcome socio-economic obstacles and coordinate a variety of roles designed to govern the promotion of sustainable rural tourism development. The project partners and local DMOs represent the top-down forces to drive local development and were instrumental in:

- generating the scientific approach and knowledge to define a good governance model;
- providing education and training to local stakeholders on sustainable tourism development, tourism planning and marketing;
- raising awareness of the significant role of local identity, culture, traditions and collective memory, in addition the former;
- organising and promoting transnational workshops among stakeholders of the networked central European rural areas to enable the comparison of challenges, opportunities and limitations of knowledge sharing and 'good practice' exchange identified in the composition and actions of the Task Forces.

In addition to project partners and local DMOs, Task Forces were joined also by Local Guide Groups, i.e., representatives of selected local private or public stakeholders and community members. The Local Guide Groups served as a voluntary force which complemented the Task Forces by their participation in bottom-up decision making and actions aimed at the development of sustainable tourism at the local scale. The Local Guide Groups were selected in accordance with their perceived resources and competences of each mountain area to develop tourism products for selected tourist market profiles. The Board of Mayors, or the municipal government, supervised the local stakeholders neither represented in the Local Guide Groups nor by the Task Forces' activities.

The situation of each pilot project proved place-specific in that it relies on place identity, local resources for transformation into experiential tourism products. Accordingly, the Task Force composition was configured differently according to, firstly, the strategic players that were linked to the three mountain areas: Tesino Vanoi, Valle dei Mocheni and Valle del Chiese; and, secondly, the potential role they could play in supporting the formulation and implementation of sustainable tourism pilot project (Della Lucia and Martini, 2012; Martini and Buffa, 2012).

For example, the Tesino Vanoi pilot project focused on the First World War cultural heritage to develop *Mountain Storytelling*, a tourism product based on different thematic trekking and cultural events to experience episodes of this historical event. While the Valle dei Mocheni pilot project focused on the richness of water resources of these wilderness areas to develop *Vision H_2O*, a tourism product of water-based special events and educational workshops to experience traditional activities based on local resources. Finally, the Valle del Chiese pilot project immersed tourists in a *Rural Experience*, through rural estate accommodation, participation in traditional activities and educational workshops.

Discussion

The challenge of sustainable business is at the core of today's rural development initiatives and projects. Sustainable rural development entails a transition in the traditional role of both the private and public sector toward a good governance model. The present study has applied an institutional economic approach because the market failures of marginal rural areas cannot be overcome by for-profit firms without the aid of TSOs. Therefore, the three main stakeholders of Europe's rural areas operate in an increasingly more complex context. A comparison of the dominant paradigms reveals that the three realms of private sector, public sector and TSOs stand a better chance to overcome the economic, social and environmental constraints by joining forces in partnership. This, in turn, places increasing emphasis on, firstly, the capability for leveraging social capital to create the embedded governance conditions under which stakeholder engagement in knowledge sharing processes for integrated decision making can occur; and, secondly, for facilitating the promotion of cohesive socio-economic development. Both of these factors play a critical role in (a) establishing a critical mass to pull together resources derived from social, informational, material and cognitive contexts; (b) developing a knowledge infrastructure supported by scientific and empirical evidence to underpin the embedded governance approach; and (c) stimulating a shift in the market structure from centralised hierarchical power to networks of stakeholders who share knowledge for the joint creation of value through social innovation.

This paper cites the case of three Trentino villages, particularly the challenges these must address to deal with the conditions of the 'new rural paradigm' (OECD, 2006) if they want to become competitive while preserving their identity. To the extent possible this case study provides evidence that embedded governance, which builds on social capital, guided by institutional policy, enabled the three villages to pull together their resources within the frame of one networked destination formation. Secondly, it allows for the *socialisation* and the *externalisation* of tacit knowledge (Nonaka and Takeuchi, 1995) transfer and its *internalisation* for generating a new 'layer' for 'common practice' embodiment. The latter depends on existing tourist destination knowledge assets for new product development, for example. Thirdly, the symbolic representation of the destination's identity and its incorporation into brand name products can be projected through the media to raise tourist awareness of the experiential holiday potential.

Our investigation showed that the case study area's competitiveness is relevant and dependent on social capital. The embedded governance model framed the bottom-up stakeholder perspective to help overcome the weaknesses of the top-down stakeholder perspective and vice versa. In this case, the top-down driving forces played a critical role in connecting the supra-national and provincial political-institutional level. Meanwhile the bottom-up driving forces played a critical role in fostering the hybridisation of social capital and engaging stakeholders' participation in decision making and implementation through a common partnership platform structure designed to underpin sustainable rural tourism development projects.

This raised stakeholders' awareness that the local identity and heritage resources represent assets that given appropriate knowledge sharing could be converted into sustainable tourism products. The multi-levels involved in decision making implied the need to develop better institutions for knowledge sharing within the embedded governance model. To this end we distinguished three social capital dimensions and their role in connecting local and external stakeholders. From the *cognitive perspective*, the social capital present in the destination is the local stakeholders' possession of fine-grained understanding of local opportunities and weaknesses. And the stakeholders' main *benefit*, if appropriately levered for knowledge transfer and innovation across borders contributing to sustainable rural tourism development.

From a *structural perspective,* local stakeholders may interpret the strength in their social network ties as an organisational capability and main *benefit*. However, such a narrow intra-organisational relationship viewpoint can also be seen as a danger to understanding rural areas as integrated, bounded territorial units. This runs counter to institutional economic theory which positions rural areas into an interdependent network including socio-spatial relationships with 'outsiders' who have complementary knowledge; for reconfiguring the multiple dimensions of innovation.

Embedded governance knowledge from a *relational perspective* makes possible the formation of a destination decision support system. Local stakeholders are rooted in a cultural environment involving dialogues and transactions to do with identity, aspirations and position with the local social network. New spatial interactions at new scales along: material space, information space, social space and cognitive space (Go and van Fenema, 2006) result in fuzzy boundaries and demand innovative approaches for consultation and more flexible forms of governance and agenda setting. The study illustrates the critical importance of such non-economic factors for achieving sustainable rural development.

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