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1. INTRODUCTION

In recent years, there has been a growth of interest in the role of trust in business behaviour, because of its potential influence on reducing transaction costs.¹ Related to business behavior, trust is based on a perception of the probability that other agents will behave in a way that is expected.² In a cross border context, trust might be expected to play a particular important role because of the risks inherent in cross border transactions. For example, risks occur because implementation gaps in the legal framework leave scope for discretionary actions of officials. In such a context, trust assists individuals in controlling these risks and reducing the costs connected with each border crossing. Personal and institutional trust plays a role here, with the former depending on the characteristics of a group, such as kinship or an ethnic group, and the latter on the institutional environment.³ Trust and learning are closely linked, with recursive relations: learning can be an outcome of trust and its context, but it also can influence trust building, thus taking on particular importance in a cross border context where trust has a special role in developing cross border activities.

Overall, the topic of trust and learning in relation to cross border entrepreneurship has not been researched systematically, with most of the literature focusing on (inter-)organisational and personal trust in the context of multinationals, but neglecting the regional component of international entrepreneurship.⁴ As such, a conceptual and empirical investigation of the topic can contribute to greater understanding of the role of different forms of trust on cross border entrepreneurial activities, particularly with regard to whether or not trust facilitates cross border entrepreneurship and/or a lack of trust impedes it. This is the aim of the following paper, which analyses the role of trust and learning through looking at the nature of trust and learning.

After a short introduction into the conceptual framework in chapter 2, chapter 3 reviews the empirical evidence of the CBCED project in order to discuss the nature of

¹ See, for example, Fukuyama (1995), Williamson (1993), Höhmann and Welter (2005), Welter and Smallbone (2006).

² Gambetta (1988).

³ See Williamson (1993) for this distinction.

⁴ See Smallbone et al. (2007) for a detailed literature review. Exceptions in this regard include a recently finished project on cross border co-operations in Belarus, Moldova and Ukraine (cf. Welter et al. 2007a, 2007b, Welter and Smallbone, 2007, 2008), and a project researching German-Ukrainian business relationships with particular emphasis on their links to the overall institutional framework (cf. Möllering and Stache 2007).

trust and learning and to identify macro and micro contexts in which trust and learning take place, and the processes themselves. Chapter 4 briefly reviews the initial typologies of trust and learning in the light of the empirical evidence, concluding with implications for entrepreneurship theory and research.

Before proceeding, it is worth pointing out that investigating trust empirically is difficult, not alone because of its elusive and habitual nature. This takes on particular importance in a cross border context and in investigating household cross border activities. Based on experiences from a project researching cross border activities in Belarus, Moldova and Ukraine, in this project this particular challenge was taken up by opting for an in-depth, case-based approach instead of survey-based methods. However, we need to acknowledge the limitations of such an approach, as the longitudinal dimension is missing, thus only allowing for post-hoc conclusions regarding processes of trust (and learning).

2. A CONCEPTUAL MODEL FOR TRUST AND LEARNING IN A CROSS BORDER SETTING⁵

This section presents a conceptual model incorporating issues of trust and learning and their impact on entrepreneurship, in particular in a cross border context. Generally, trust can be differentiated into institutional and personal trust, with factors influencing both forms of trust arising at personal, organisational and institutional level. Personal trust signals trust at individual level, in the case of a cross border partnership towards the partner enterprise or organisation. High levels of personal trust mainly reflect repeated positive experiences made over time and longstanding relations, building on initial knowledge about the partner. Personal trust may depend on the characteristics of a group such as an ethnic or kinship group, but it also occurs in bilateral (business) relationships, often longstanding ones, where persons have come to know each other.⁶ In both cases, they know or assume that the partner/friend will not behave in a way detrimental to the relationship, even when there are no written or explicit rules set out. This means that these relationships are

⁵ This chapter updates and extends the conceptual framework introduced in chapter 5.6 in Smallbone et al. (2007), pp. 118-123, and Welter and Smallbone (2008).

⁶ See Williamson (1993).

governed by norms, values and codes of conduct inherent in a business environment and/or a wider society.

Institutional trust reflects trust into the functioning of the overall political, legal or economic framework and into its informal rules, with low levels of institutional trust in general taken as indicators for a deficient institutional framework. Institutional trust is essential for the efficient operation of a market economy, because in an economy characterized by a high level of institutional trust agents are able to enter into transactions with only limited information about their partner's specific attributes, with the scope of trust extending beyond the number of people that are known personally.⁷ In this regard, institutional trust is based on legal safeguards and sanctions in case the relationship fails.

However, both forms of trust are of a dual nature, drawing attention to the complex nature of the trust phenomenon: duality *"(...) entails that trust and control each assume the existence of the other, refer to each other and create each other, but remain irreducible to each other."*⁸ With regard to institutional trust we can then distinguish trust into formal and informal institutions, where formal institutional trust represents control and informal institutional trust the trust perspective. Similarly, personal trust consists of 'genuine' personal trust and a 'calculated' risk ensured by control mechanisms.

Therefore, conceptualising the duality of trust in a cross border context allows us a closer look at factors influencing cross border activities, as will be explored empirically in chapter 3. Where partners are drawn from different national and cultural contexts, it is of particular interest to identify the factors which influence the ability of partners to co-operate effectively, and to analyse the processes through which trust is built. Research on cross border trading in a post Soviet environment has shown that risks can be minimized drawing on relations of mutual trust: this

⁷ See Welter and Smallbone (2006).

⁸ Möllering (2005), p. 283.

includes, besides long-standing business and friendship relations, family help⁹ or ethnic and kinship ties¹⁰.

The degree of trust and the ability to trust depend on the context for trust (building). Trust environments might be similar across the border, but differ when compared to the rest of the country. Moreover, not only the level and degree of trust differ in a cross border co-operation, but also the nature of trust, as trust has culture-specific dimensions. Therefore, the context for trust plays an important role. Context can be interpreted as a function of factors which generally influence trust building, and of triggers reflecting situational influences. For example, trust building is facilitated between communities, which have a common history, some common 'rules' or other shared experiences.¹¹ Thus, while cultures with a common background (e.g., ethnicities living on both sides of the border) might draw on their mutual history in building trust, trust building will mainly appear through repeated (business) exchanges where communities and cultures do not share a background or experiences. In this regard, on the one hand a joint regional identity of the border region might foster trust building, while on the other hand collective memories could impede trust building as they hinder 'de-learning' because of previously negative experiences.

Trust and learning are closely linked, with recursive relations. Firstly, the overall level of both personal and institutional trust within a region influences the ability of individuals and organisations, their willingness and commitment to learn and also to de-learn. This also has consequences for learning processes in cross border co-operations, in particular if regions in neighbouring countries demonstrate different levels of trust. In this regard, learning is an outcome of trust and its context: Learning can be facilitated with higher levels of trust and vice versa, thus requirements for trust to occur also indirectly have an impact on learning processes. Moreover, while

⁹ For example: Hohnen (2003), Humphrey (2002), Wallace et al. (1997, 1999), Williams and Balaz (2002), Welter et al. (2006), Welter and Smallbone (2008).

¹⁰ See Thuen (1999), Williams and Balaz (2005).

¹¹ Nuissl (2001) identified two alternative positions in the literature. Some authors support the hypothesis that "real socialism" was incompatible with a cultural proclivity for trusting behaviour. As a consequence, in a post-socialist environment, there is a risk of being caught in a development trap stemming from a lack of interpersonal trust between strangers. Others claim that the necessity to rely on informal networks in everyday life under "real socialism" results in a legacy of an ideology of solidarity, which supported the development of trust between actors.

personal and institutional trust can in some situations be required for learning to occur on different levels, personal trust also can be an outcome of learning, as individuals come to know each other and 'learn to trust'¹² throughout their interactions. In this regard, also institutional trust may be influenced by learning, namely 'learning to trust' into institutions, which develops over time, based on experiences made with institutions.

Entrepreneurial learning refers to changes of known and trusted patterns. Learning is generated if the entrepreneur's interpretation of what to do, leads to an action that is no longer wanted by the external environment, for example, in cases where new regulations have made a particular action illegal. Internal or external events act as triggers for a change in entrepreneurial behaviour, provided they exceed a threshold, above which the entrepreneur recognises a need for behavioural changes. This threshold obviously depends on the entrepreneur's background and experiences and his/her business objectives, but entrepreneurial learning is also affected by the institutional environment.

In a cross border context, there are some critical aspects of learning. Learning is influenced by commitment, trust and cross-cultural competencies. Here, learning experiences from past collaborations affect not only the willingness, but also the competency for cross border learning. In this regard, 'learning blockages' will result in low levels of learning also in a cross border context. Therefore not only triggers, but also regional thresholds for learning need to be taken into account as they refer to cultural and emotional misfits that deteriorate the fundamental basis of trustful co-operations. Moreover, tacit knowledge as one of the most crucial resources in achieving positive learning results is difficult to transfer between individuals¹³; here the cross border context might act as further impediment. A certain fit (in terms of resource, organizational and technological characteristics as well as in terms of trust and partner openness) between co-operating partners appears to be a necessary precondition for a mutual transfer of knowledge in these situations.

¹² For 'learning to trust' in a cross border context see Welter and Smallbone (2008). Generally, Nootboom (2002) developed a cognition- and learning-related framework to explain trust building.

¹³ See Polanyi (1966), Nonaka et al. (2001).

In this regard, the role of trust in a cross border context asks for a closer look. So far, its importance has been taken for granted, although the literature does not allow for conclusive answers. Related to the cross border context, two questions arise, one concerning the triggers for a cross border partnership, the other one regarding the nature of trust in such partnerships, both with implications for the potential of a cross border co-operation. With regard to the first question, trust could either be a necessary requirement for a cross border partnership to emerge or a result of experience-based learning within a cross border co-operation.

The second question is related to the discussion of the role of trust as complementing or substituting. As an informal sanctioning mechanism, institutional trust complements the overall institutional framework, whereas personal trust complements institutional trust where an individual does not want to rely merely on institutional arrangements or where these institutional arrangements are unfamiliar.¹⁴ On the other hand, research undertaken in a context of low institutional trust, such as in former post Soviet countries, often emphasizes the role of personal trust in substituting for an incomplete institutional framework.¹⁵ In these circumstances, personal trust may substitute for deficiencies in the institutional environment for business, becoming dominant where institutional trust into the formal framework is low or absent, thus impeding control of the co-operation at the macro level. In a cross border context, this can be mediated by geographical and / or cultural proximity of the neighbouring regions and partners. Moreover, one might assume differences in the role of trust between types of cross border partnerships; with personal trust dominating household partnerships and losing importance (over time) for enterprise and institutional partnerships.

The conceptual issues raised in this chapter will now be explored empirically for regions in an enlarged Europe.

¹⁴ See Welter and Smallbone (2006).

¹⁵ Generally see Peng (2000). For Russia Chepurenko and Malieva (2005), Ledeneva (1998), Radaev (2001, 2004), Voronkov and Zdravosmyslova (2004); for Belarus, Ukraine and Moldova Smallbone and Welter (2001) and Welter and Smallbone (2003).

3. TRUST AND LEARNING IN CROSS BORDER PARTNERSHIPS: REVIEWING THE EMPIRICAL EVIDENCE

In the following sections we present empirical findings in cross border regions concerning the nature, extent and processes of trust and learning in partnerships on institutional, enterprise and household level, in order to understand the role of trust and learning in a cross border context.

3.1 The Nature of Trust in a Cross Border Context

Trust can be differentiated looking at *forms, namely institutional and personal trust*, and levels (high and low). Institutional trust refers to trust into formal and informal institutions. This includes legal and political frameworks, the respective culture and economies and historical experiences, all of which can contribute to a high level of institutional trust if and when individuals have made positive experiences regarding the institutional framework or where they are confident that the institutional environment is functioning well (and vice versa). This is reflected in statements where interviewees talk about business environments in Western Europe, drawing attention to the benefits of a functioning institutional environment, discuss the impact of Soviet times on today's business culture, or where they assess the value of norms and standards in developing their co-operation:

“Things would be completely different if we collaborated with a businessman from Western Europe, let's say an Italian one. When you export to Western-European countries you feel safe, you know there are guarantees. Things are planned well and properly organised from the early start. There are rules and formal procedures and there is no space for ‘strange’ agreements and informal activities.”¹⁶

“We like their way of doing business – they are efficient and do not waste time and it is easy for us to trust them and I think they feel the same way about us. The management in this company has studied in France and based on our discussions I have this impression that they really want to change Russia and they like to do business in an efficient and quite western way. So I do think that the business culture in Russia is different from e.g. the Finnish business culture, but with this partner there are no significant differences as they are so West oriented. A comparison between this partner and e.g. our clients is really quite revealing: in the client companies the negative traditions from the CCCP era still persist; e.g. corruption is commonplace.”¹⁷

¹⁶ Florina-E12.

¹⁷ South Karelia-E19.

"I trust western institutions more than I trust the local ones. On the regional level there is less trust than on the national level. I trust eastern institutions very little."¹⁸

"In any case, you still need to be very cautious. We are not in charge of supervising the production process, so we have to control them closely in order to make sure that they adhere to the standards that we have set. The fact that they have received the ISO 9001:2000 and HACCP certification definitely ensures to a certain point the quality we want, but we still need to be careful."¹⁹

Such trust into the functioning of formal institutions, in other words, systemic trust, is required for entrepreneurial activities to develop and thrive over time, as it allows entrepreneurs to go beyond a circle of trusted and well-known business partners²⁰, thus influencing the nature of cross border activities and their development potential. This takes on particular importance in a cross border context, where institutions on the other side of the border are unfamiliar, thus hindering cross border activities and forcing individuals to resort to personal trust. Here, previous research has shown personal trust to supplement for institutional trust in hostile and turbulent environments where the institutional environment is (still) deficient. In such a context, personal trust allows partnerships to emerge regardless of the deficiencies of the institutional environment, but an overreliance on personal trust also may restrict the development of cross border partnerships.²¹

There is some evidence of low(er) institutional trust, reflected in, for example, negative experiences related to formal institutions (customs control, border control, local governments), although the empirical evidence does not allow for a clear-cut classification of the case study regions into low- and high-trust because levels of trust across the case study border regions are difficult to assess systematically based on our empirical results. Moreover, EU enlargement has facilitated border controls in new member states and consequently also cross border activities, although acting as additional impediment for those case study regions bordering non-EU members (Greece-FYROM, Bulgaria-FYROM, Estonia-Russia, Finland-Russia, Poland-

¹⁸ Biala Podlaska-E05.

¹⁹ Florina-E06.

²⁰ See Welter and Smallbone (2006).

²¹ See Welter and Smallbone (2007) for examples from Ukraine, Belarus and Moldova.

Belarus), where low(er) institutional trust into the formal framework continues to dominate.²²

Regional differences in levels of trust reflect negative individual experiences which themselves often result in cultural stereotyping as one means of expressing one's disappointment – a pattern visible in the Polish-Belarusian border where despite a shared history cross border entrepreneurship is impeded due to individual experiences and a deficient formal framework. Regional divergent levels of trust also can be based on historical retentions of the neighbouring population, thus drawing attention to the path-dependency of institutional trust in a cross border context. This is visible in statements like *"they have it [cheating] in their blood"*²³, or a Finnish partner explaining that *"The Russians' commitment to doing business is not always admirable – I think this is something that the local culture does not emphasize, and this will surely be a problem also in the future."*²⁴

Also current political relations and problems between neighbouring countries influence institutional trust, mainly at formal level, as well as levels of personal trust, as is apparent in the case of the Estonian regions or in the case of Greece and FYROM (Republic of Macedonia) because of the naming issue. This consequently results in low levels of overall institutional trust: *"Political relations are rather negative at the moment, and this has decreased the trust of some partners."*²⁵ In turn, a low level of institutional trust also influences levels of personal trust because individuals are reluctant to undergo cross border activities in situations where institutional trust is low. *"I feel that there is no way or creating trust between our company and the Russian partners – the Russian administration acts in an unpredictable way and we cannot help this at all."*²⁶, although interviewees also clearly identify unstable administrations and political distortions as the reason for this: *"It is a pity that poor relations between politicians influence communication between ordinary persons."*²⁷

²² Also see section 3.3.; Venesaar and Pihlak (2008).

²³ Biala Podlaska-E03.

²⁴ South Karelia-E18.

²⁵ Ida Viru-E11.

²⁶ South Karelia-E06.

²⁷ Ida Viru-E17.

Where cultural proximity is supported by a functional institutional environment and political relationships, institutional trust in both its forms does not pose a problem, as for example in the Finnish-Swedish region of Tornio: *“Trust has never been an issue – in this way the Swedes are very much like the Finns – people consider oral contracts equally binding”*²⁸, or similarly in the German-Polish region of Görlitz-Zgorzelec. This also holds true for many interviewees in the Finnish-Russian case study region of South Karelia. Although here it is personal trust dominating the cross border relations thus confirming the important role of social capital and close ties in developing partnerships with partners from a post Soviet context²⁹: *“There is a saying about business in Russia, that before you know your partner thoroughly there is no point in starting to do business with him.”*³⁰ and the *“only way to build trust is to have very close and personal relationships with the people involved – you have to be almost “friends” before you can assume that things will work as promised.”*³¹

Generally, the pattern emerging confirms the assumed duality of institutional trust. While interviewees often complain about deficiencies in the formal institutional framework which impedes their cross border activity, in most cases this does not prevent them from continuing or starting trading across the border. It is less the lack of trust into formal institutions, but rather the existence of trust into informal institutions, sometimes alongside personal trust, which in such situations helps them in coping with a deficient formal framework. Such trust in informal institutions is reflected by a collective identity and/or shared experiences from the Soviet period, which topic will be explored further in section 3.3.1. In other words, the pattern emerging from our evidence demonstrates the dual nature of institutional trust with informal institutional trust as visible in cultural proximity often substituting for a low(er) level of formal institutional trust.

Personal trust also can substitute for formal institutional trust. Personal trust generally plays an important role for cross border co-operations and its importance is recognised in all case study regions: *“People have to trust (...). Without trust, it is not*

²⁸ Tornio-E19.

²⁹ See Ledeneva (1998, 2006), Schrader (2004).

³⁰ South Karelia-E14.

³¹ South Karelia-E08.

possible to do business.³², “Trust is the foundation for the development and the maintenance of a client base. Especially in Poland trust is of great importance.”³³ and “Unless there is trust between the partners, the cross border co-operation cannot develop”³⁴ are typical statements in this regard, while interviewees at the same time emphasized the time perspective in building trust.

*“There were trust issues at the beginning. We used to be very reserved, as it would have been the case with any partner, whether Greek or foreigner. There is no doubt that the fact that this country had not developed yet definitely played a role at the beginning.”*³⁵

*“When we started our work, there was much less trust, now we have cooperated for four years, we know and trust each other, and we don’t have hesitations in this respect.”*³⁶

Personal trust is signalled through cross border relations starting from personal relations and/or extending beyond mere ‘business’ co-operations, as for example in the case of an entrepreneur from Görlitz³⁷ who was invited to the public EU enlargement ceremony taking place in Poland. Another entrepreneur from the same region³⁸ named his first conversation with his Polish partner as an example for the role trust played in the cooperation between the partners right from the beginning: the Polish director took a notepad and wrote down the Polish translation of the word ‘trust’, and our interviewee added the German word. According to him, by this the parties manifested their will that the cooperation should mainly be based on trust which has been the case until today.

Trust, also in its institutional form, is *triggered mainly on personal level*, regardless of whether this concerns a household, enterprise or institutional partnership, although the institutional environment can play a role. Triggers include personal contacts or recommendations through ‘trusted’ (known and familiar) entrepreneurs and customers, the reputation of one partner, or positive experiences with partners over time as a result of repeated exchanges. Positive experiences enhance levels of trust,

³² Hochfranken-E17.

³³ Görlitz-E11.

³⁴ Kyustendil-E04.

³⁵ Florina-E06.

³⁶ Ida Viru-E14.

³⁷ Görlitz-E02.

³⁸ Görlitz-E01.

especially where they go hand in hand with cultural proximity, as visible in many of the regions such as Poland-Belarus, the Balkan regions or Estonia and Russia. A Greek entrepreneur co-operating with FYROM elaborates this: *“The fact that the first partners were Greek and we had co-operated with them in the past, was the motive for us. After all, we share a common cultural and business background.”*³⁹, drawing attention to the context in which trust building takes place. Individual personal experiences themselves also might foster cultural proximity and the development of a common regional identity. On the other hand, negative experiences often are re-enforced by cultural distance, and they also re-enforce cultural distance, as is echoed in stereotypes and prejudices – these topics are further elaborated in section 3.3.

In this regard, our results illustrate the difficulty to distinguish clearly between personal and institutional trust, instead pointing out the complexities and linked nature of both forms. Interviewees often tend to classify the whole neighbouring nation as one deserving or not deserving trust, which reflects the complex and recursive relations existing between personal and institutional trust. This also is apparent in cross border relations where the interviewee has made positive experiences and trusts in his/her partner, i.e., where personal trust is high, but trust in the neighbouring region as such can be low(er). Only in a few cases are such assessments based on explicit negative experiences with cross border activities, where either the partner defaulted or the institutional environment does not work (e.g., custom officials are taking bribes or the procedures are cumbersome and time-consuming), while frequently interviewees also rely on ‘hearsay’ and popular knowledge of the ‘other’, the stranger. All this is visible in stereotypes to be found in all border regions such as *“You cannot trust Russian partners or Russian in general.”* (Finnish-Russian border)⁴⁰; *“They are Russians – they have a different mentality.”* (Polish-Belarusian border)⁴¹; *“They are lazy in general and they act like gypsies.”* (Greek-Macedonian border)⁴²; *“(…) we are dealing with a completely different mentality”* (Greek-Bulgarian border)⁴³; *“Polish people are approaching things easily”*

³⁹ Florina-E04.

⁴⁰ South Karelia-E06.

⁴¹ Biala Podlaska-E17.

⁴² Florina-E14.

⁴³ Serres-E05.

(German-Polish border)⁴⁴; *“the Czechs’ behaviour is very much determined by their mood and they are considerably less organized.”*⁴⁵ (German-Czech border); or *“It’s hard to cooperate with Russian firms, they have a different way of thinking.”*⁴⁶ (Estonian-Russian border).

Such stereotyping, however, is important as it allows individuals to cope with situations and partners unfamiliar to them in drawing on something familiar and trusted, namely the stereotype, albeit this naturally also reinforces low initial levels of trust. In this regard, Luhmann referred to this process as *“familiarity breeding unfamiliarity”*⁴⁷, where symbols help to reintroduce the unfamiliar into the familiar world, as happens here with stereotyping. Therefore, levels (and also forms) of trust are not only a result of path-dependency, but are also determined by the respective current context and situation and underlying processes of trust-building⁴⁸.

Overall, a regional pattern is visible in the data where interviewees in border regions of both old and new European member states in general show (initially) lower levels of trust towards their non-EU member neighbouring countries (and partners), despite (or even because) of common experiences during Soviet times in the case of the new EU members: *“The East still is far away.”*⁴⁹

3.2 The Nature of Learning in a Cross Border Context

Two patterns of learning are visible in cross border partnerships.⁵⁰ One refers to enterprises and households *‘learning (international) entrepreneurship’*. In case study regions with a socialist history (Bulgaria, Estonia, Poland), this pattern mainly consists of *‘learning entrepreneurship’*, in particular at the level of household co-operations. To some extent, Poland is an exception because of early reforms in socialist times, so that the process of *‘learning entrepreneurship’* has started as early as the 1970s. In regions belonging to mature market economies (Finland, Germany,

⁴⁴ Görlitz-E12.

⁴⁵ Hochfranken-E03.

⁴⁶ Ida-Viru-E09.

⁴⁷ Luhmann (2000), p. 95.

⁴⁸ See Möllering (2006).

⁴⁹ Biala Podlaska-E02.

⁵⁰ Welter and Smallbone (2008).

Greece) and in Poland, this process also is related to 'learning international entrepreneurship'.

*"Learning to trade"*⁵¹ allows for the routinization and institutionalization of entrepreneurial practices, even where resulting from simple cross border trading activities.⁵² Entrepreneurial learning starts with recognising opportunities in a cross border activity, realising such ideas through cross border petty trading activities, which frequently are illegal or half-legal, and building up a more substantial business over time. For example, this household in Petrich, Bulgaria⁵³ currently imports processed olives from Greece. But his intentions are to import unprocessed olives directly from Greek producers, process them in Bulgaria and distribute them on the local market in Petrich through a firm specifically registered for this activity.

Entrepreneurial learning continues with getting to know and adapting entrepreneurial behaviour and strategies required in a cross border context. This also might include 'unwanted' or illegal strategies, which are needed for entrepreneurial cross border activities to survive and are of particular importance for household co-operations. For example, households from Biala-Podlaska in Poland frequently circumvent customs regulations in Belarus by travelling several times and each time taking only small amounts of goods, although in the aftermath of the Russian financial crisis petty trading activities dwindled substantially. Such avoidance and coping strategies also are obvious in the Bulgarian regions, as indirectly illustrated in the following quote: *"The risks are connected with theft of good, its confiscation by custom authorities or police. Everybody finds a way to cope with these difficulties (...)"*⁵⁴

The other side of 'learning entrepreneurship' concerns 'learning international entrepreneurship' in different country contexts. This especially is to be observed for enterprise partnerships, regardless of the border region:

"The experience we have gained by entering foreign markets has taught us many things. Starting from the Balkans, we are planning to establish a network throughout Europe. It is very important to

⁵¹ Hohnen (2003), p. 33.

⁵² See Welter and Smallbone (2007).

⁵³ Petrich-H06.

⁵⁴ Kyustendil-H05.

*know your way around foreign markets. As I've already mentioned, this cooperation with Bulgaria has attracted our interest to further expand our presence in the country, perhaps by establishing a branch there.*⁵⁵

*"... before everything else, you should study the market, your future partner, as well as its managers and main activities. Because trust is needed, but not an implicit one. Trust should be supported by preliminary investigation.*⁵⁶

Naturally, this pattern of entrepreneurial learning is more dominant in the old EU member states, but not restricted to them, as the above cited Bulgarian entrepreneur and also another entrepreneur based in the Estonian region Ida Viru illustrate: *"We don't earn profit in Russia, but we learn how to manage there – we study the market and laws and regulations.*⁵⁷

Entrepreneurial learning is experience-based and occurs through trial-and-error actions, observation of commercial practices, training on the job by partners, information and knowledge transfer. Partners across all regions also acquire 'soft' skills and learn how to cope with a different mentality. For example, Finnish partners in Tornio learned that decision-making in Sweden is a slow process of mutual consent; or German and Polish respondents in Görlitz-Zgorzelec had to accept that Poles are more spontaneous while Germans prefer to plan and act accordingly.

The second learning pattern refers to '*learning to trust*'. In this regard, the empirical evidence illustrates that learning oftentimes is needed for trust to evolve respectively fosters trust building, but it also shows that learning may need trust as illustrated later in this section in relation to negative experiences.

*"(..) in the course of time, trust is starting to build up. After each trip, both parties learn and profit from this experience. The other day, they asked me to give them a deposit of 1,500 € for a group of Greek people that would travel to Ohrid and then take the money from the Greeks. OK, I wasn't happy to do so, but I would have never done it if there weren't a certain degree of trust between us.*⁵⁸

⁵⁵ Serres-E08.

⁵⁶ Kyustendil-E03.

⁵⁷ Ida Viru-E16.

⁵⁸ Florina-E08.

Obviously and not surprising, the background and behaviour of partners, the nature of their relationship and experiences made with current and previous cross border co-operations influence this type of learning, as emphasized by a Polish entrepreneur co-operating with a partner in Görlitz, Germany: *“Trust has been already built and is still being built on the basis of payment terms, reliability, our stability and long period of being in the market”*⁵⁹. In this context, it is ‘Western entrepreneurial identities’, visible in, for example, reliability, payment on time, quality of products, and timely deliveries, which facilitate or impede ‘learning to trust’. This is best illustrated by a Greek entrepreneur describing his relation with partners in Bulgaria: *“Bulgarians are not familiar with the Western type of doing business. They are not used to make agreements. In many cases they drive a hard bargain after we have signed the related contracts.”*⁶⁰; and only over time does a *“common business language with our Bulgarian partners”*⁶¹ develop, resulting in entrepreneurs feeling *“more secure”*⁶². Thus, ‘learning entrepreneurship’ and ‘learning to trust’ are closely linked especially where one of the partners comes from a post Soviet context, often reinforced by historical experiences which have led to cultural animosities like in the Balkan context. Learning entrepreneurship contributes to post-Soviet partners ‘earning trust’ over time with their partners from an advanced market context ‘learning trust’ at the same time, indicating the importance of understanding learning and trust as a process.

Learning and trust may enhance each other and are linked recursively. For example, ‘learning to trust’ frequently appears to be restricted to single-loop learning because trust is missing or cannot evolve. In all case study regions, individuals with negative experiences made in cross border partnerships often are amongst the ones bringing forward stereotypes and cultural prejudices as one resp. the major explanation why this cross border co-operation did not work as visible in the example set out below, although the reasons also might have been their lack of experience, their risk-behaviour, a badly planned market entry and little knowledge about the entrepreneurship culture, i.e. a lack of cross-cultural competencies.

⁵⁹ Zgorzelec-E04.

⁶⁰ Serres-E14.

⁶¹ Serres-E02.

⁶² Serres-E02.

“Once we cooperated with a transport company from Belarus. We helped him to buy two Scania trucks in Sweden. The company was developing until somebody stole their trucks and the whole load (...). Some half year later their drivers came to us and said that they wanted to cooperate, that he is the boss right now. It was obvious for us that this load was stolen by the drivers. This told us that this nation is not worth trusting. It is a black hole on the map.”⁶³

In some cases, individuals who continue their partnership or develop new partnerships despite their negative experiences, display double-loop learning: They adapt their underlying actions and strategies, even if the negative experience has resulted in them losing trust. In other words, although fraud and cheating breeds mistrust, it also can trigger positive entrepreneurial learning. This is illustrated in examples across all surveyed regions where entrepreneurs, when asked for learning experiences from their partnerships, emphasized the need to properly survey markets before concluding cross border partnerships, to formalise business partnerships⁶⁴ or to simply be ‘more cautious’ in dealing with unknown partners:

“On the other hand, our company has learned a lot from this process. We are more experienced now and we know we can’t trust anyone. We have now learned that we have to conduct a proper market survey before we enter a foreign market. Of course, this experience makes us a little cautious for the future ones, particularly with foreign collaborators. We are circumspect and I believe this is reasonable.”⁶⁵

“My previous experience is not a barrier for future cross border cooperation. I am simply more informed and I am aware of the changes and the developments that occur there.”⁶⁶

Instead of merely relying on trust, individuals then frequently start employing safety and control mechanisms in the partnership; in short: they develop behaviours where trust is not required or reduced to a calculated risk. Payments are only accepted in cash⁶⁷ or orders are only accepted with pre-payments⁶⁸, partners are selected based on economic criteria, and are closely supervised. Here, some regional patterns are visible from the empirical evidence, again referring back to the role institutional trust plays for personal trust to evolve and ‘learning to trust’ to happen. For example, most

⁶³ Biala-Podlaska-E11.

⁶⁴ For example, Petrich-E14.

⁶⁵ Florina-E10.

⁶⁶ Florina-E16.

⁶⁷ For example, Biala-Podlaska-E03, E14; Görlitz-E19; Kyustendil-E19.

⁶⁸ For example, Petrich-E08, E20.

Polish respondents co-operating with Belarusians demonstrated a distrustful behaviour, demanding cash payments. Similarly, South Karelian respondents, albeit demonstrating high levels of personal trust, have learned from their experiences never to trust Russians too much, not to plan too extensively because *“what is agreed today may no longer be valid tomorrow”*⁶⁹ and to accept that Russians do not necessarily stick to schedules. A similar picture emerges for Hochfranken on the German-Czech border where entrepreneurs complain that *“one simply has to make new arrangements again and again [...]; they cannot remember what they have done the evening before when they wake up in the morning and [...] one cannot rely on them”*.⁷⁰, or that one has *“write a to-do-list for them every week”*⁷¹, *“to set up detailed working plans and to agree on everything precisely in the Czech Republic in advance.”*⁷² On the other hand, there also is evidence indicating that the institutional voids often present at the beginning of transformation were exploited by entrepreneurs from ‘old’ EU member states, consequently resulting in mistrust and impeding ‘learning to trust’.⁷³

Other respondents, mainly enterprises with vested interests in the co-operation, also employ a more strategic learning approach in assisting partners to develop the skills and knowledge required for the partnership to flourish: *“(...) when I see that they are not able to respond to my needs and requirements I try to instruct them on how to become better. Thus, cross border cooperation becomes a great learning process for them.”*⁷⁴ Another example from Hochfranken serves to illustrate this further: The firm co-operates with Czech companies, depending on their quality and reliable deliveries. The entrepreneur therefore organised trainings for his Czech partner and brought up their quality processes to a level he was satisfied with.⁷⁵ Moreover, learning occurs on both sides, as illustrated by this entrepreneur from Serres in Greece, who displays a pro-active approach when summarising his learning experiences:

⁶⁹ South Karelia-E08.

⁷⁰ Hochfranken-E03.

⁷¹ Hochfranken-E10.

⁷² Hochfranken-E12.

⁷³ For example, Petrich-E08 and E14 (cheated by Greek partners); Zgorzelec-E07 and E12 (cheated by German partners); also see Smallbone and Xheneti (2008).

⁷⁴ Florina-E08.

⁷⁵ Hochfranken-E09.

“Every single step we take in our cross border cooperation is a big lesson for us. The learning experience is extremely helpful, since we get familiarised with their mentality, the legal framework and we adapt to this environment. We also learn to distinguish between our partners and choose the one that fits best in our strategic plan. Taken for granted that our intention is the expansion to the Balkan market, every single partnership is a great lesson for us and surely affects our behaviour in the future. We create what we call “experience network”. The previous experience gives us the green light to continue, or an orange-alert-light to warn us for possible risks. (...) We view this cooperation as know-how exchange. There are things that we offer and things that we learn by our Bulgarian partners, which are extremely useful for us. Just think of how they realise and exploit the opportunities in the mountain areas. Just look at how they have developed the ski centre in Bansko. They are also familiar with the procedures involving joint ventures between private entities and State agencies and we can not be compared to them. They have also specialised knowledge and if you approach your cooperation in a positive manner, there are a lot of things to gain.”⁷⁶

In this regard, cultural and economic differences obviously trigger learning, as diversity between countries may *“provide a firm with a broader learning opportunity than is available in a purely domestic operation”⁷⁷*. Our evidence demonstrates that it is the provision of required information, links and interaction between economic actors which encourages and facilitates cross border learning.⁷⁸

The empirical evidence shows the benefits of ‘learning (international) entrepreneurship’ in situations where one of the partners does not possess the required skills and knowledge, both for the partnership to develop and trust to emerge. However, learning can be impeded by power asymmetries in the partnership. Examples are mainly to be found in regions where the level of economic development differs with partners from less affluent regions economically depending on the co-operation (Greece-FYROM or Bulgaria; Germany-Poland or Czech Republic; to some extent in Finland-Russia); in cross border co-operations where partners differ in size; or in those cross border co-operations where the dominant partner mainly outsources or subcontracts simple activities. In such cases, a ‘learning dilemma’ occurs which can be solved by trust and a genuine partnership relation as shown by the examples throughout this chapter.

⁷⁶ Serres-E02.

⁷⁷ Kim and Inkpen (2005) p. 316.

⁷⁸ Also see Petrakos and Tsiapa (2001).

3.3 Contexts of Trust and Learning

This section now turns to review the contexts in which trust building and learning occurs, through analysing factors influencing trust and learning. The theoretical framework in chapter 2 identified such factors on regional, organisational and personal level; in other words: we can distinguish between macro and micro contexts for trust building and learning, both of which will now be explored in more details.

3.3.1 Macro contexts

At regional level, the institutional framework, cultural and spatial dimensions are of importance in this regard. Contextual factors at institutional level include sectoral and economic conditions. For example, evidence demonstrates differing roles for trust in cross border partnerships: Personal trust is needed in those co-operations with a knowledge component or where sensitive data are transferred regularly:

“(...) it [trust] assists our efforts to resolve any problems fast and efficiently. Taking our collaboration for example, this is a large scale project which includes several technical detailed characteristics. If we had to face trust problems our cooperation would be completely failed. (...) Of course, we have to bear in mind that we are talking for a high-tech company with efficient organisation structure (...) It's not the typical Balkan company.”⁷⁹

“(...) the role of trust is very high. If I didn't trust the Czech colleagues, I would not open the doors to the plants and would not communicate so openly with them. I also do have the impression that the Czechs share this point of view.”⁸⁰

Contrary to that, personal trust plays a lesser role in occasional cross border relations and in partnerships where cash payments dominate.⁸¹ This refers to many of the household co-operations in our case study regions because of their buyer-seller nature. Examples include the household cross border activities in the region Zgorzelec, where Polish people offer services to the German clients; or the border region in Biala Podlaska, where Polish households are selling products to Belarussian clients.

⁷⁹ Florina-E13.

⁸⁰ Hochfranken-E07.

⁸¹ For similar results for Germany, Estonia and Russia see Welter et al. (2004).

Regarding the economic context, a favourable economic situation in the neighbouring region can trigger cross border co-operations. Incentives include motivations known from the literature on internationalisation in general⁸², namely lower labour costs in neighbouring regions as evident in both of the German case study regions and in some of the Greek enterprise partnerships; the importance of building up international markets for the competitiveness of the home company and the like. The effect on trust and learning is an indirect one: where partnerships are grounded in mutual benefits, win-win situations arise which in turn foster mutual understanding of partners as a basis for trust building.

However, the economic situation in neighbouring regions also can act as a deterrent for trust and learning, mainly because low levels of economic development often go hand in hand with still deficient legal and political frameworks. Here, in line with results from several previous studies⁸³, our evidence illustrates how trust building is facilitated in environments where legal frameworks exist and function well, leaving no room for discretionary decisions of officials, and where institutions fostering cross border entrepreneurship exist, and vice versa. This influence is visible in several of our case study regions: for example, in co-operations between Poland and Belarus where respondents from households and enterprises alike complain about difficulties with customs officials, and restrictive border regulations after Poland joined the EU, but also between Greece and FYROM or South Karelia and Russia where in both cases an uncertain environment impedes cross border activities.⁸⁴

“Laws were different from month to month. I can remember that there was a law in the FYROM which forced the foreign investor to have a local partner in order to establish a firm there. That was the reason why I did not follow an entrepreneurial idea I had, namely to open a building material retail shop in Skopje, even though I think it would be a totally new idea for the local consumers.”⁸⁵

“The main problem in Russia, the uncertainty, has to do with the Russian officials. Their activities create most of the barriers we have faced in our CBC. (...) especially the way the local authorities

⁸² See for example, Shepherd and Katz (2005).

⁸³ For example Bachmann (2003), Welter (2005), specifically for Britain and Germany: Lane (1997), Lane and Bachmann (1996), for transition environments in general Smallbone and Welter (2006), for Estonia: Venesaar (2005), for Russia: Chepurenko and Malieva (2005), Radaev (2004).

⁸⁴ Also see Smallbone and Xheneti (2008).

⁸⁵ Florina-E18.

interpretation of the law – they are not consistent in this way, the interpretations seem to change every day (if not every hour).⁸⁶

“There is total lack of trust towards duty officials in Belarus; there is total freedom of legal interpretations among them.⁸⁷

“It has changed significantly since 2004. Belorussian law has blocked, not lowered but blocked the trade.⁸⁸

Thus, in hostile or turbulent environments, institutional deficiencies hinder the development potential of cross border co-operations, through that indirectly also restricting possibilities for trust building. Two examples, not surprisingly both of them household cross border co-operations⁸⁹ illustrate the influence of both domestic and foreign institutions in this regard. A household in Biala-Podlaska⁹⁰, trading with cigarettes and alcohol, complains about the risks involved in his illegal trading activities, while a Bulgarian household⁹¹ legalized his activities over the course of time. This draws attention to the context-specificity of trust building, which, although ultimately an individual process, is highly influenced by the respective (institutional) context.⁹²

Faced with contexts with major institutional deficiencies, individuals sometimes mention bribing officials, which reflects a lack of (access to) trust-based relations: *“People prefer mutual reciprocity. (...) It follows from this that bribery is something people resort to; in other words, bribery is practised when people do not have the necessary networks of friends.⁹³* This also is apparent from our empirical evidence: those who cannot claim personal relations at the customs or border have to pay. Moreover, there is an interesting regional pattern: Such practices are more evident in partnerships with non-EU member states such as Belarus, Russia or FYROM and in the early stages of co-operations with at that time non-EU members such as Bulgaria, although in this case with changes for the better in the course of EU accession.

⁸⁶ South Karelia-E06.

⁸⁷ Biala Podlaska-E01.

⁸⁸ Biala Podlaska-E07.

⁸⁹ Also see Welter and Smallbone (2007).

⁹⁰ Biala Podlaska-H14.

⁹¹ Kyustendil-H01.

⁹² Also see Smallbone and Xheneti (2008).

⁹³ Humphrey (2002), p. 129.

“Our relations with local authorities relied on bribes. Everywhere, as simple as that. E.g., in the customs, paying for a truck, giving some money through custom fines, etc.”⁹⁴

“Take the customs-house for example. They used to operate as a smuggling point. The chance to have a convenient custom clearance of our products was limited in the case we had a certain acquaintance in the custom, or if we paid ‘under the table’.”⁹⁵

“Then there is Russian bureaucracy and bribing. In Russia the orders come top-down – from Tsar to his subordinates. Our official communication is horizontal, in Russia it’s vertical. In Russia people can’t influence decision-making, instead they use bribes.”⁹⁶

Nevertheless, personal contacts and relations continue to play an important role in cross border partnerships as vividly illustrated by a German entrepreneur describing his experiences in the Czech Republic: *“People have to be very friendly to Czech institutions, then there will be no problems.”⁹⁷* Here, cultural proximity facilitates trust building: *“I am one of them and we perfectly understand each other.”⁹⁸* and *“Their mentality is similar to ours.”⁹⁹* are typical statements illustrating the importance of cultural proximity for trust and learning as it allows individuals to draw on a shared understanding and collective ‘cross border’ identities.

Collective identities as basis for trust building are visible across most regions, with the German border regions being exceptions because of their resettlement history.¹⁰⁰ In Southern European regions interviewees emphasized their ‘Balkan identity’¹⁰¹ as well as similarity in the languages as means to create a common understanding also in business relations. In other regions, for example Sweden and Finland, cultural proximity is visible in common mentalities and behaviour. In more detail, interviewees mention traditions, religion, music, social habits, history and stories, heroes and national symbols, and common languages as main facets in this regard:

“A common background with Eastern countries helps to build trust. (...) They see the Slavic roots, similar language. Also, the perception of the world is similar.” (Polish-Belarusian border)¹⁰²

⁹⁴ Florina-E03.

⁹⁵ Florina-E12.

⁹⁶ SouthEastEstonia-E16.

⁹⁷ Hochfranken-E17.

⁹⁸ Biala Podlaska-H10.

⁹⁹ Biala Podlaska-H11.

¹⁰⁰ For a discussion of border identities also see Agelopoulos, Voutira and Labrianidis (2008).

¹⁰¹ Kyustendil-E19.

¹⁰² Biala Podlaska-E05.

“Common cultural habits helped in trust building. Balkan people are very close to us. I never felt fear or insecurity when in the FYROM. They were never offensive towards us, unlike what many Greeks were expecting.” (Greek-Macedonian border)¹⁰³

“Don’t forget that they are Balkans, just like us.” (Greek-Bulgarian border)¹⁰⁴

“Bulgarians and Macedonians have a common culture, common language and even common habits in eating and drinking, which facilitates the development of cross border activities.” (Bulgarian-Macedonian border)¹⁰⁵

“(…) a Finnish person and a Swedish person share exactly the same characteristics: they are equally honest, hardworking and also equally envious of other people.” (Finnish-Swedish border)¹⁰⁶

In some instances, economic conditions reinforce collective mindsets and contribute to trust across the borders as illustrated by a household in Biala-Podlaska, trading with Belarus: *“Our and their life problems are similar; we have much to talk about.”¹⁰⁷* Again, it is proximity, this time reflected in similar economic experiences, therefore allowing partners to draw on something ‘known’ and trusted on both sides of the border, which are of importance here. Instead of narrowly referring to cultural proximity, it might therefore be more appropriate to widen this concept to ‘socio-economic proximity’.

On the other hand, our empirical evidence also illustrates a fact well-known from the cross border literature which hinders both trust building and consequently also the development of CBCs, namely cultural distance as reflected in prejudices, retentions and stereotypes.¹⁰⁸ Despite shared cultures, it is the lack of national identities which might prevent trust to emerge in a cross border co-operation¹⁰⁹:

“Regarding trust, I can say that we did not trust them. Apart from the fact, they could not offer us a single safety valve and secure our payments, we have to bear in mind that they lack a clear, national identity. When you do business with them you cannot guess whether your partner is Slav, Muslim, Albanian, Roma or ...whatever. Wou do not know who you have opposite to you and this

¹⁰³ Florina-E03.

¹⁰⁴ Serres-E06.

¹⁰⁵ Kyustendil-E03.

¹⁰⁶ Tornio-E03.

¹⁰⁷ Biala Podlaska-H05.

¹⁰⁸ For example, Krätke (1999), Adamczuk and Rymarzyk (2003a, 2003b).

¹⁰⁹ Also see Agelopoulos, Voutira and Labrianidis (2008).

*makes you feel cautious. (...) We could not understand each other and they could not guarantee for anything.*¹¹⁰

*“Typical Czech people with their cosiness, for instance, rather live in the heartland. After 1945, the formerly German settlements and cities located in the border region were filled with rather unwanted “bad” people. Therefore, the Czechs living in this region seem a bit “wilder” than those living in the heartland. People should pay attention with who they cooperate, for instance, and primarily inform on the previous history and the family of the possible cooperation partner.”*¹¹¹

Interestingly, interviewees often simultaneously express cultural proximity and distance towards neighbouring regions. One such example is this Greek entrepreneur¹¹² who had emphasized the role of cultural proximity as quoted above. In the same interview he referred to cultural differences in the FYROM in comparison to Greece, which were reflected in *“their attitude towards productivity. They had learned to work in a way that didn’t perceive high productivity as necessary. It didn’t make any difference to them; either they made 20 or 50. It was the same to them during the old regime.”* Such attitudes of partners are seen as a result of the socialist period. Partners from a former socialist context therefore are judged as not being able to behave ‘business-like’ in cross border co-operations, thus in turn necessitating the implementation of controls and safety nets and hindering trust-building.

Here, the empirical evidence shows an interesting regional pattern with differences between cross border regions with a common socialist background (e.g., Bulgaria-FYROM, Estonia-Russia, Germany-Poland, Poland-Belarus) and those Western European countries bordering a former socialist country (Greece-FYROM and Bulgaria, Germany-Czech Republic, Finland-Russia). In the former regions, partners are able to draw on cultural commonalities as well as the socialist background for building trust, as apparent in the Estonian regions, although cultural dissonance also occurs because of Estonians refusing to acknowledge their commonalities and shared mindsets with the Russian partners across the border¹¹³.

¹¹⁰ Florina-E12.

¹¹¹ Hochfranken-E03.

¹¹² Florina-E03.

¹¹³ Exceptions to this are the Seto, who live both in South-Estonia and on the Russian side of this particular border; as well as non-Estonians (Russians, Ukrainians, and Belarusians) living in Ida-Viru county.

In the latter regions, the socialist background of one partner often impedes trust and learning in the cross border co-operation, especially where it superimposes existing cultural proximities as is the case for Greece and the bordering regions in Bulgaria and FYROM. It is less 'cultural distance' playing a role, but rather what Nooteboom labelled 'cognitive distance' because partners developed their knowledge in different environments without communicating with each other, thus indicating cognitive sources for trust and learning.¹¹⁴

Interestingly, the evidence also demonstrates an increase in cultural distance in regions with a socialist history after EU accession such as Bulgaria or Estonia, as illustrated in this quote where a Bulgarian entrepreneur describes the relationship with his Macedonian partners: *"After Bulgaria's accession to the EU a role in building trust plays the respect that Macedonian people have to the Bulgarian ones. They already perceive the Bulgarians as people of a different class."*¹¹⁵

Another context-bound aspect in trust building and learning refers to geographical (or spatial) proximity which has a two-fold role in this regard. On the one hand, it facilitates trust building because it allows for (frequent) personal contacts. This is visible in examples from all regions: In enterprise co-operations entrepreneurs either emphasize the easiness in crossing borders and meeting partners even though those partners sometimes are not located directly at the border, or the advantage of producing in a border region which allows them to arrange 'just-in-time'-deliveries across borders.¹¹⁶ For household co-operations geographical proximity often is the main trigger for cross border activities to develop.

*"(...) the geographical proximity matters, since they are able to visit me in 1-1 1/2 hours; thus, they call me in the morning, asking me to 'prepare' their orders till noon."*¹¹⁷

On the other hand, geographical proximity also facilitates the supervision of business relations, thus at first glance rendering trust (building) superfluous. Here, the empirical evidence indicates that trust often occurs as a calculated risk, because geographical proximity allows for easy problem-solving as well as control

¹¹⁴ See Nooteboom (2002), p. 25.

¹¹⁵ Kyustendil-E03.

¹¹⁶ For example, see Görlitz-E02.

¹¹⁷ Florina-E17.

mechanisms to be implemented. This is evident in this example where the German interviewee emphasized that punctuality of delivery is facilitated by the spatial proximity of the Polish partner, pointing out simple rules such as “*goods on time ensure quick payment*”. This is complemented by control mechanisms such as unannounced visits by the German director on the Polish site) in order to secure the quality of the Polish products.”¹¹⁸

In this regard, two main patterns are visible in the data, indicating the duality of trust in the first and the role of personal experiences and backgrounds for trust and learning in the second case: Firstly, ‘calculated’ trust in a cross border co-operation occurs in the initial stages of a cross border partnership with genuine personal trust developing alongside ‘calculated’ trust in later stages of the partnership. This is explored further in relation to the micro context of trust and learning below. Secondly, in some cases, it is not geographical proximity as such fostering ‘calculated’ trust, but negative experiences at individual level which forced entrepreneurs to reduce their level of initial trust and recur to safety and controls instead. We will come back to this when discussing the process of trust building.

3.3.2 Micro contexts

As visible in many of the examples set out above, trust and learning are also influenced by organisational and personal factors, i.e., the micro contexts in which trust is built and learning made possible. Factors at organizational and personal level are important in this regard, as they assist in signalling trustworthiness of the partner as one requirement for trust to emerge.

Organisational factors are reflected, for example, in the regulation of the partnership, the communication structures, and the benefits of cross border partnerships to households, enterprises and institutions. Formal contracts are seen as a guarantee for long-term co-operations, setting out the general terms of the partnership such as delivery terms, prices and quality level. However, respondents also recognise that the validity of formal, written contracts depends on the overall institutional environment, where in many cases such agreements have to go hand in hand with personal trust, as illustrated by entrepreneurs in South Karelia and Görlitz:

¹¹⁸ Görlitz-E01.

“Making contracts with Russians can be rather problematic at times – you need to have good personal relations with your partners and once this level of trust has been achieved formal / written agreements are not really necessary, but even written contracts do not guarantee that things will go accordingly. The Russians can very abruptly claim that the contracts have become invalid.”¹¹⁹

“Germans should pay attention, for instance, when they submit a contract to Polish partners, as the latter often wonder whether the Germans “intend to hedge themselves against the Poles or to do business with them”. ”¹²⁰

“If you present a contract to Polish businessmen as the basis of a potential deal at the beginning of the negotiation, the deal will probably not be closed. That is why contracts in Poland should be handled with care. There, a promise is worth more than a signed contract.”¹²¹

Regarding the nature of agreements in relation to trust, the following patterns, related to both regions and the nature of co-operations, emerge from our empirical data. In regions which are bordering countries with a turbulent and uncertain institutional environment, two behavioural patterns are visible, both of them signalling a lack of institutional trust, but also with different implications for the role of personal trust. On the one hand, personal trust, signalled by informal agreements, can substitute for formal agreements. This is the case, for example, in both Estonian regions: *“A word given by a Russian businessman is worth more than an Estonian contract.”¹²²* On the other hand, personal trust is not needed because individuals resort to commercial regulations which allow them to forego both personal and institutional trust. This refers to co-operations which are based on cash or advance payments. Here, it is first of all the nature of these cross border co-operation (or the business field) which explains such behaviour¹²³; but regional patterns are also to be found in the data. One such example refers to Biala Podlaska, bordering Belarus, where individuals and entrepreneurs display a high level of distrustful behaviour towards their Belarusian partners, resulting in an overall dominance of regulations such as advance payments in cross border partnerships.

¹¹⁹ South Karelia-E08.

¹²⁰ Görlitz-E07.

¹²¹ Görlitz-E11.

¹²² South East Estonia-E19.

¹²³ See also Welter et al. (2004).

Interestingly, our evidence on regulations of cross border partnerships is not conclusive as to whether either formal or informal (i.e., hand-shake contracts) agreements foster trust building. Referring back to the conceptual discussion on whether the role of trust is complementing or substituting (cf. chapter 2), the picture emerging with regard to contractual arrangements illustrates complex relationships between the macro and micro contexts of trust building in this regard. Geographical proximity facilitates the use of informal agreements, together with personal trust in the form of longstanding co-operations or previous knowledge of partners: *“As we have known each other now for years, the need for face-to-face meetings is not so great anymore – we know the people we deal with personally and are also familiar with their ways of action.”*¹²⁴. In another case, it takes the Macedonian partner less than two hours to travel to the Greek side: *“They would come here, discuss the details and arrange our deal, always based on informal agreements, such as hand-shaking.”*¹²⁵

Moreover, trust building is fostered by regular communication: *“Neither contracts, lawyers nor seminars can be as helpful as personal communication between partners.”*¹²⁶; which itself is facilitated both by geographical and cultural proximity. Geographical proximity allows for frequent face-to-face meetings, which have been shown as important factors for building trust¹²⁷, while cultural proximity is reflected in common language skills as well as being familiar with one’s other mentality, either because of a common culture, which is seen as one of the most important factors for the success of such co-operations; or due to shared experiences during Soviet times, as apparent in the Estonian regions, where many entrepreneurs and household traders either have worked in Russia during Soviet times or they are Russian by origin. This draws attention to the close links between the macro and micro contexts of trust building and learning, as illustrated by a Greek entrepreneur in describing his co-operation with the FYROM:

“One of the most important trust building factors is the common cultural background. If you ever go there and attend a marriage or a funeral, you will see that they are alike to us. In addition (..),

¹²⁴ South Karelia-E04.

¹²⁵ Florina-E17.

¹²⁶ Görlitz-E01.

¹²⁷ See Welter et al. (2004).

*language is another fostering factor for cross border cooperation and trust building in general, allowing us to come closer, even though we always have to be careful when selecting a partner, just like in every other cooperation.*¹²⁸

At personal level, the background and behaviour of both partners, the nature of their relationship and experiences made with current and previous cross border co-operations influence trust and learning because they are seen as sources of reliability and reliance, reflecting individual (or organisational) trustworthiness.¹²⁹ The background of partners, as reflected in, e.g., their professional experiences, schooling and language skills as well as experiences in living abroad, signals openness towards other cultures, but also refers to the skills and knowledge required in building cross border partnerships. Behaviour of partners refers to personal characteristics and feelings emphasized in many interviews such as honesty or loyalty, oftentimes mentioned together with sympathy and empathy¹³⁰, but also to partners acting business-like. Here, Western 'entrepreneurial identities', in the sense of 'trusted' and familiar behaviour, which is visible in, e.g., payments on time, quality of products and timely deliveries, facilitate the emergence of trust respectively these are requirements for trust to emerge. Partners have to earn trust through adhering to 'trusted' entrepreneurial behaviour which once more draws attention to the close links between contexts and processes of trust and learning. Evidence from all regions confirms this pattern as shown in selected examples below:

*"Trust is very important and it's impossible to work without that on the Russian market. The best way to create trust is to provide good products. Then it's also easier to sell."*¹³¹

*"The fashion is good, and the employees are nice. They manufacture good quality garmets for a low price."*¹³²

*"The partner has to see that promises and actions are the same. They check a few times and in the future don't have to do that any more."*¹³³

¹²⁸ Florina-E17.

¹²⁹ See Nooteboom (2002), pp. 63-66.

¹³⁰ See Nooteboom (2007). Sources of trustworthiness are both to be found at the micro, i.e., personal level, and the macro, i.e., institutional level, referring to "socially incalculated values, norms and customs" (p. 40).

¹³¹ South East Estonia-E07.

¹³² Görlitz-E13.

¹³³ Ida Viru-E10.

“Matters of trust are always present in every partnership. Concretely, certain factors exist that positively contribute. Our own reliability and good payment terms make them feel secure. Thus, they trust us. From our own point of view, the fact that they are always on time, within the given quality standards, holds an important role as well.”¹³⁴

“Trust is very important. They trusted us and didn’t fear of not getting paid. Our reputation in Greece helped them to trust us. They knew they were cooperating with a big Greek company.”¹³⁵

“Trust must be verified.”¹³⁶

Where there is a clash between a ‘Western’ and ‘Eastern’ (unknown) entrepreneurial identity, trust building is hindered, as elaborated by a Finnish entrepreneur: “[...] cooperation with Russian entrepreneurs has not been easy. The problems arise mostly from the fact that the Russians do not understand what western companies expect from them – these misunderstandings about the “rules” of doing business are what cause the most common problems. The Russians’ commitment to doing business is not always admirable – I think this is something that the local culture does not emphasize, and this will surely be a problem also in the future.”¹³⁷ and this entrepreneur from Greece: “They are not reliable, you cannot count on them and we do not want to make business with them anymore.”¹³⁸

This also includes cases where interviewees perceived the objectives of partners to be detrimental to both their own goals and / or the cross border co-operation, as vividly illustrated by the same Greek entrepreneur discussing the nature of his co-operations with Macedonians and the implications this has for trust:

“Most of the entrepreneurs engaged in retailing businesses are opportunists, focused on short-term relationships and profits, without caring about the future. They are not interested in getting improved and become professionals. This is the result of their past experiences, since the status quo there made them adopt a narrow minded perception on how to do business. In my opinion, you can’t trust them.”¹³⁹

¹³⁴ Florina-E11.

¹³⁵ Florina-E03.

¹³⁶ Hochfranken-E17.

¹³⁷ South Karelia-E18.

¹³⁸ Florina-E15.

¹³⁹ Florina-E15. The behaviour as attributed by the entrepreneur to his partners can be classified as proprietorship which has been discussed as impeding the development of entrepreneurship in a transition context (Scase 1997, 2003). For a more detailed discussion of entrepreneurial behaviour in a cross border context see Agelopoulos, Voutira and Labrianidis (2008).

Another entrepreneur underlines the conclusion emerging here, namely diverging interests and objectives in a co-operation as impeding trust and learning, by stating that one cannot easily trust partners who are only interested in “*occasional financial profit*”¹⁴⁰. Benefits of cross border partnerships, in particular the creation of a win-win-situation for both partners, thus play an important role in fostering the emergence of trust.

A mutual win-win situation is facilitated in a cross border co-operation in situations where friendships or previous knowledge of (potential) partners, signalling personal trust, often existed before a cross border partnership emerged. This is visible when interviewees discuss how they selected partners: “*The most important criterion to select my partners is the fact that I know them well, since they used to be my customers.*”¹⁴¹ Friendships also evolve over time through socialising in cross border co-operations, not surprisingly, more frequently in the case of co-operations with longterm visions and objectives. Again, no regional pattern is visible:

*“The important thing is to know the partner well, especially in terms of quality of goods.”*¹⁴²

*“Concrete aims and opinions on side of the partners as well as implicit honesty are prerequisites for well-working collaboration. Only in case that interpersonal relationships work well, businesses can be successful and both partners are able to reach their aims.”*¹⁴³

*“Social relationships developed along with our entrepreneurial co-operation. You had to visit them, drink and eat once every time, etc. Our relations are better with our constant partners.”*¹⁴⁴

*“Consistent communication with the partner will ultimately still grow into personal contact. I dare say that we have in this way found efficient partners.”*¹⁴⁵

Personal trust plays a twofold role in cross border co-operations. As discussed in section 3.1, cross border co-operations are mainly triggered at personal level, which refers to personal trust being a necessary ‘ingredient’ for many cross border co-operations to emerge, especially in institutional environments which do not allow for

¹⁴⁰ Serres-E05.

¹⁴¹ Florina-E17.

¹⁴² Biala Podlaska-E02.

¹⁴³ Görlitz-E01.

¹⁴⁴ Florina-E03.

¹⁴⁵ South East Estonia-E01.

institutional trust in the wider sense. On the other hand, personal trust emerges as a result of repeated actions in cross border co-operations, apparently leaving us with a dilemma in this regard: how can cross border co-operations be come about if personal trust does not exist at the beginning? Here, Möllering argues that at the *“heart of the concept of trust is the suspension of vulnerability and uncertainty (the leap of faith), which enables actors to have positive expectations of others.”*¹⁴⁶ This perspective allows us to solve the dilemma of the recursive nature of personal trust; and it is an important facet drawing attention again to a much required process perspective on trust in a cross border context (cf. section 3.4).

Interestingly, our empirical evidence also demonstrates that ‘genuine’ personal trust, based on friendship, empathy and habituation, rarely dominates in business relations. This is despite case studies showing that social and personal friendships, which reflect non-rational and non-calculative sources for trust¹⁴⁷ and ‘genuine’ personal trust, evolve over time, oftentimes *because of* control mechanisms, i.e., the calculated side of trust. There is widespread evidence even in well-functioning co-operations showing that personal trust is complemented by ‘calculated’ trust, thus apparently confirming Williamson’s conclusion that it is not personal trust, but rather ‘calculated’ trust which dominates business relationships.¹⁴⁸ This is best summarized by an Estonian entrepreneur laconically stating that *“Trust is important, but agreements and other documents have to be in order.”*¹⁴⁹ It is also visible in the sources for trusting behaviour valued by interviewees, as discussed above, because Western entrepreneurial identities reflect a rational assessment of the partner’s behaviour.

Overall, our evidence shows personal trust in a cross border context as having both calculative and non-calculative, routinized and habitual, elements, thus confirming its dual nature where genuine trust and control can co-exist and co-evolve.¹⁵⁰ In this regard, it is of interest how this impacts on trust building and learning, in particular because non-calculative trust in its routinized and habitual form might impede ‘de-

¹⁴⁶ Möllering (2006), p. 191.

¹⁴⁷ See Nooteboom (2002), p. 65.

¹⁴⁸ See Williamson (1993).

¹⁴⁹ Ida Viru-E09.

¹⁵⁰ See also Möllering (2005).

learning', thus drawing attention to the dark sides of trust and learning and the processes underlying trust building. These themes will be explored further in the next section.

3.4 A Process Perspective on Trust and Learning

This section now turns to review the process of building and destroying trust, also paying attention to the dark sides of trust. The emergence of trust is understood as a learning process, where partners 'learn to trust' (see section 3.2). Of particular interest is whether, given the differing macro and micro contexts for trust and learning, we can identify patterns in building and destroying trust, either across regions or related to the type of cross border co-operation.

3.4.1 Building and maintaining trust

Trust in a cross border co-operation is built up in two broad ways. It either results from trust existing prior to the co-operation because of empathic relations such as friend- or kinship or competence-based experiences as signalled in reputation and recommendations.¹⁵¹ In such cases, trust within the cross border co-operation is built up quickly or it exists right from the start of the co-operation. A 'leap of faith' was either superfluous because personal trust is extended to the new relationship or it was facilitated because safeguards in the form of recommendations existed, that is such partners had already proven their trustworthiness through recommendations of trusted persons:

"I make contracts, arrangements with the help of my closer and further family and friends."¹⁵²

"They are our only partners that we would be willing to sell our products on credit; this is how much we trust them. We trusted them from the very beginning, because they were introduced to us by some common partners, who also were our safety net. They had good recommendations, so things got much simpler."¹⁵³

The second pattern of building trust is, not surprisingly, more common for enterprises, reflecting specificities of enterprise co-operations in a cross border context, where trust building occurs in unfamiliar settings and with unfamiliar

¹⁵¹ See Nooteboom (2002), p. 89.

¹⁵² Biala Podlaska-H10.

¹⁵³ Serres-E07.

partners. Here, partners start out with suspicious and cautious behaviour dominating the initial stage. *“At first of course there was a kind of reluctance and suspicion, as in any partnership.”*¹⁵⁴, or *“We used to be very reserved, as it would have been the case with any partner”*¹⁵⁵ are typical statements of our interviewees describing the contact phase.

Overall, the evidence shows a typical picture across regions where trust is built while working together, getting to know each other at business level and personally, with these continuous contacts on both business and personal level reinforcing the co-operation, leading to trust and strengthening trust:

*“If they see you checking what they are doing and showing some interest, this prepares the ground for trust to grow.”*¹⁵⁶

*“Trust comes with joint activities, it has to be created. It doesn’t come at once, no matter if the partner is Russian or Ukrainian. The cooperation develops step-by-step and slowly also trust comes.”*¹⁵⁷

*“In the course of time and given that the conditions have been respected from both sides, we can safely say that there is trust between us. It’s only with the course of time that trust occurs, since Bulgarian companies realise that we are credible in our payments and we see that they meet our standards.”*¹⁵⁸

*“(…) first, the partners get to know each other; then they carry out a project together and, if this project works out well, they negotiate a co-operation with concrete regulations in the third step.”*¹⁵⁹

Following Nooteboom, we can distinguish three major stages of building trust for this pattern:¹⁶⁰ control in the absence of trust, assessing trustworthiness and developing tolerance levels of trust; and widening these tolerance levels. In the control stage, partners either proceed step-by-step, or install safeguards based on their own interests, because there is no genuine basis for trust. In the second phase,

¹⁵⁴ Florina-E03.

¹⁵⁵ Florina-E06.

¹⁵⁶ Florina-E05.

¹⁵⁷ South East Estonia-E15.

¹⁵⁸ Serres-E05.

¹⁵⁹ Hochfranken-E04.

¹⁶⁰ See Nooteboom (2002), pp. 90-92.

knowledge and experience allows partners to assess their trustworthiness. By setting tolerance levels for trust, they create some scope for trusting each other, without giving up the control option. Tolerance levels are widened in the third stage, as a result of shared cognitive frames. These three stages, which may overlap and are not required to occur sequentially, are illustrated by the examples below:

“There can be no trust from the very beginning, since our cooperation is still at a premature stage. We make a choice from a list of candidate firms and we try to make sure that this choice is the best. However, we can’t be sure that they will work intensively towards the desired direction, so I can’t say that we trust them from the very beginning. Trust develops in the course of time and after we are convinced by the results that we are moving towards the correct direction.”¹⁶¹

“Trust was gradually built. Lack of trust was certainly a barrier at the initial stages of our cooperation but I think this is natural. The local entrepreneurs were a little suspicious and so were we. The situation is gradually improving, though the passage of time. They see that they can trust us, concerning our payments and we also see that they are reliable. Most of them were recommended by our Greek partners, while some other have been clients in the past and this constitutes another factor for trust building. Language is another significant factor, since it creates familiarization and trust directly.”¹⁶²

Throughout the process of building trust, personal relations can substitute for formal control mechanisms, as illustrated by these Greek and German entrepreneurs, stating that:

“It’s not easy to develop trust. Especially at the beginning, you undertake some risk, which is the case in all kinds of cooperation. However, on the professional level, it’s too early to say that you trust them. In some other sectors this might be different, especially when personal relationships are involved. It’s very important to have personal relationships when there are no other safety nets.”¹⁶³

“(..)trust to the Polish partners plays a significant role and is the basis for a cross border cooperation. The personal contact is crucial, also when interacting with Polish authorities.”¹⁶⁴

“Trust has to develop. The partners check each other, assess the other one’s reliability and verify their statements. The reliability of a partner is verified in the first stage of becoming acquainted

¹⁶¹ Serres-E03.

¹⁶² Florina-E04.

¹⁶³ Serres-E12.

¹⁶⁴ Görlitz-E05.

*with each other. Afterwards, the trust basis develops and the partners exchange information which they would have kept secret before.*¹⁶⁵

However, the evidence also draws attention to the fact that in a cross border context partners overall appear reluctant to (completely) forego safety nets, be they personal relations or formalised control and supervision mechanisms. In many of the partnerships trust develops simultaneously from controlling partners and starting to socialise with them, indicating the 'daily life' embeddedness of trust in entrepreneurial actions.¹⁶⁶ Although personal trust generally increases over time, patterns evolve where in some regions control mechanisms continue to dominate, while in others the evidence shows personal relations 'taking over' the co-operation. Examples of co-operations where the calculative element of trust (control) dominates, even though personal trust does exist, are to be found in the German and Greek border regions. The emerging pattern of trust building might result from the overall functioning institutional framework and the (perceived) higher levels of economic development in these regions compared to the neighbouring countries, thus fostering asymmetric co-operations.

In South-Karelia, as one of the Finnish case study regions, and in the Estonian ones, all of which are bordering Russia, for example, we can identify the opposite pattern in building trust, with personal relations dominating the process. Here, most interviewees emphasize that social relations are required for doing business. This reflects the well-known social embeddedness of economic actions in Russia, thus indicating an important requirement for trust building in cross border partnerships in regions bordering Russia.¹⁶⁷

*"Personal relations come first, then business dealings."*¹⁶⁸

"(...) only way to build trust is to have very close and personal relationships with the people involved – you have to be almost "friends" before you can assume that things will work as promised. Building relationships like this takes time and you really have to make an effort, and whenever there are changes e.g. officials are replaced by new ones or you find yourself a new partner you have to start all over. There are really no short-cuts or other ways of building this trust

¹⁶⁵ Hochfranken-E04.

¹⁶⁶ See Nuisl, Gundermann and Gebauer (2001).

¹⁶⁷ See Ledeneva (2006) for an in-depth case study of informal relations in Russia's economy.

¹⁶⁸ Ida Viru-E08.

*– you can send letters etc. but they will not do the trick. You have to meet the people in person – once they are your personal friends, the Russians are very trustworthy and they do everything in their power to help you, but this friendship is not built overnight.*¹⁶⁹

*“Trust is very important – and the best way to build trust is to form personal, close relationships with the people you cooperate with. Once you know each other personally cooperation is very easy and flexible. At first we did make some written agreements on the nature of our cooperation, but now that we know each other, we manage without any formal contracts etc. And in Russia, the philosophy of making contracts is slightly different from what Finnish people (and people in Western countries in general) are used to – even written, formal contracts do not always guarantee that the partners will do as agreed – so in this way trust and personal relations with the foreign partners are essential. In other words, sometimes contracts become ‘just paper’.*¹⁷⁰

However, the importance put to personal relations renders cross border trust building a particular time-consuming process, *“it doesn’t come overnight”*¹⁷¹. Moreover, trust building in such a context also takes some ‘physical’ efforts in order to develop and be maintained¹⁷², as vividly illustrated by Estonian and German interviewees:

*“(…) with Russian partner you need to drink a lot of vodka and this is taken for granted.”*¹⁷³
*“Like Russians said, they shall have trust after you have been sitting with them, had a party and then you can thee-and-thou you.”*¹⁷⁴

*“Business meetings (in Poland) are not as fast as in Germany and do not come to the point right away – but you need to have some coffee and cake first and talk about business afterwards.”*¹⁷⁵

Moreover, trust building also is a context-bound process. This can be best illustrated by the Polish case study regions. In the region bordering Germany, initial mistrust arising out of historical experiences and cultural retentions was slowly overcome by positive experiences at individual level, while in the region bordering Belarus initial personal trust, existing because of a mutual past, was subsequently displaced by mistrust and increasing cognitive distance, mainly resulting from negative experiences.

¹⁶⁹ South Karelia-E08.

¹⁷⁰ South Karelia-E09.

¹⁷¹ South East Estonia-E07.

¹⁷² Möllering and Stache (2007) describe similar ‘physical’ efforts for Ukrainian-German business relationships where face-to-face meetings are considered equally important for trust to emerge.

¹⁷³ South East Estonia-E10.

¹⁷⁴ South East Estonia-E13.

¹⁷⁵ Görlitz-E11.

Overall, trust building is an upward spiral with self-reinforcing and recursive relations between the different stages. Our evidence shows it happening step-by-step, through partners gradually evaluating each other's competence and willingness to co-operate, thus minimizing the risks involved in such a co-operation, or through resorting to control mechanisms in the initial stages. The process, however, is time-consuming, regardless of region and type of co-operation: *"Our trust with clients and shareholders of the port has grown every year. When we started our work, there was much less trust, now we have cooperated for four years, we know and trust each other, and we don't have hesitations in this respect."*¹⁷⁶ This and other examples clearly indicate trust as being developed through a process of familiarization which breeds trust.

While the process itself is not specific or different in a cross border co-operation, trust is a conditional phenomenon, depending on contexts, situations and individual cognitions. In this regard, cultural and geographical proximity as specificities of the cross border context can facilitate the initial leap of faith needed for building trust where none existed before. A good example illustrating how cultural proximity in the sense of shared mindsets helps in building trust not only across borders, but even in foreign countries, refers to an entrepreneur from Bulgaria.¹⁷⁷ When visiting Germany, he again made contacts with people from the Balkans (Macedonians and Serbians). Over time he made more friends among the Macedonians – his regular customers, because *"the common work makes friends."*

In particular, cultural proximity allows individuals to rely on shared cognitive maps, thus *"creating a fiction that enables them [the actors] to trust"*¹⁷⁸. In this regard, cultural proximity creates cognitive proximity. It allows individuals to behave 'as if', that is as if trust has existed already for a long time, or the partner had been known before, or the individual knows the future outcome of his/her behaviour, and 'just doing it', that is blending out the uncertain outcome of their behaviour.¹⁷⁹ However,

¹⁷⁶ Ida Viru-E14.

¹⁷⁷ Kuystendil-E19.

¹⁷⁸ Möllering (2006), p. 112; also Möllering (2001).

¹⁷⁹ See Möllering (2006), pp. 105-126 for a detailed conceptualisation of the leap of faith with its components as-if, just do it and the will to belief.

cognitive proximity also might have its dark sides, as will be explored in the following section.

3.4.2 The dark sides of trust

So far, the picture emerging appears to confirm an overall important role for trust and learning in a cross border context: without trust ‘higher-level’ learning in a cross border context (i.e. in the sense of learning to trust, to co-operate and to trade) may be impeded; and trust is needed for cross border co-operations to develop, at least in the long run alongside with control and formal safety mechanisms. However, trust also has its dark sides, and those will be explored further in this section, with particular emphasis on building and maintaining trust and on triggering learning processes in a cross border context.

One obvious result of a lack of trust is its impact on restricting learning in a cross border context, as already mentioned in section 3.2. Negative experiences block the development perspectives of cross border co-operations in the long run, because they prevent double-loop learning and lead to a self-reinforcing downward spiral of trust where trust had existed before, or a total lack of trust. Our evidence shows that based on their previous experiences, interviewees resort to extensive control and safety mechanisms instead of complementing those by personal trust:

“Trust levels are significantly low. I can only sell them in cash, because from the very beginning our potential partners were either trying to cheat us or they didn’t have the necessary capital in order to pay off their orders.”¹⁸⁰

“I require cash, if they want to make transfer I wait for the money and only then I give them products. You cannot trust them in this matter.”¹⁸¹

Negative experiences leave individuals disappointed. *“They are not reliable, you can not count on them and we do not want to make business with them anymore.”¹⁸²* This results in or increases cognitive distance between partners, thus further impeding trust building, because it hinders the ‘leap of faith’ required for ‘learning to trust’, and

¹⁸⁰ Florina-E09.

¹⁸¹ Biala Podlaska-E04.

¹⁸² Florina-E15.

hindering cross border co-operations as such. Moreover, mistrust also is visible in cases of individuals who had no interactions so far across the border, instead relying on 'hearsay' and cultural stereotypes, which increases the initial 'leap of faith' required in such cases.

Interestingly, households more frequently pointed out negative experiences: They were cheated, received the wrong goods without a possibility to reclaim payments, goods were stolen, they were handed falsified money, and the like. Power asymmetries in the cross border co-operation may be the main cause here, explaining such negative experiences, especially where households operate (partly) illegal, thus having no legal means to resort to. Nevertheless, households frequently continue their cross border co-operation despite such experiences, which partly might be a result of them needing the income.

Another possible impediment refers to over-trusting behaviour of individuals¹⁸³, which might be classified as the 'dark' side of the leap of faith. Although over-trust does not necessarily go hand in hand with negative consequences, our empirical evidence also demonstrates that such behaviour appears to impede trust building in the sense that it prevents individuals from 'learning to trust'. Instead, over-trust results in them extending their individual negative experiences beyond the single event to the whole culture or nation, thus reinforcing cultural stereotypes and prejudices, as illustrated in section 3.2.

Moreover, also the context-specificity of trust contains 'dark' elements for learning and trust building. This is visible in the over-trusting behaviour mentioned above, but also in evidence showing an overreliance on personal contacts and relations in cross border activities. Three effects are of importance here. First, while factors such as cultural proximity on the one hand can foster trust building and learning, cultural distance also may restrict these processes. What happens in such cases, as

¹⁸³ Goel and Karri (2006) draw attention to individual elements of trust which might hinder or facilitate the emergence of trust. The authors identify non-conformity, self-efficacy, and achievement motivation, preference for innovation, low uncertainty avoidance values, and collectivistic cultures as contributing to over-trusting behaviour. The authors also suggest that entrepreneurial behaviour might affect trust on a general level, if over-trusting 'by a population of entrepreneurs could make trusting others relatively unconditionally a cultural norm and isolate people who violate this collective norm.' (p. 489)

illustrated by examples where individuals attribute wrongful behaviour of their partners to characteristics of the whole neighbouring nation ('they have it in their blood' being a typical statement in this regard), is an increase in cognitive distance, which in turn prevents personal and institutional trust to develop.¹⁸⁴

Secondly, an over-embeddedness of cross border co-operations in social relations might restrict the development of cross border activities in the long run exactly because of its emphasis on personal trust in the form of strong ties for doing business. Where personal trust dominates and institutional trust does not exist, individuals frequently are forced to resort to bribery in order to reduce risk and uncertainty.¹⁸⁵ This harmful effect is visible in some of the surveyed regions, especially in those, where a post socialist 'distrustful' environment (Russia, Belarus, or FYROM) meets a more advanced trust culture (Estonia, Finland, Poland or Greece):

"I have been personally blackmailed, in order to give in and pay for 'protection' (offered by the mafia). (...) There was no way we could trust him, because we didn't even know what was going on with the authorities. They would tell us they need a document and then they would decide that in fact they need another one. So, there was not much you could do, because you couldn't understand what was going on. Everything depended on the mood of the public servant that you would come across. We cooperated with this businessman who was importing the spare parts through his company in Sofia, because supposedly he could handle the everyday practical issues, like bureaucracy and taxation. The problem was that we couldn't really check what he was doing. (...) At that time, we also faced serious problems at the customs houses; delays, controls and formalities that kept changing. No need to say that we always had to bribe the public servants in order to do our job and this raised the cost for us. Still, we are talking about small amounts of money. As you understand, we are talking about an environment of utter corruption, where we were trying to survive by cooperating with this Bulgarian partner. As I mentioned before, he already had a business of his own so he knew how things worked. However, this cooperation could not continue because we even feared for our lives when we were going to Bulgaria."¹⁸⁶

"I know a couple of cases where a couple of years ago a 'racket' came up and started to demand money. And there was another case where Estonians hired a Russian director who did business and ultimately it turned out that this director was in debt of someone. And this creditor took the

¹⁸⁴ Also see Torsello (2007) for a case study of cognitive maps of trust in a post socialist village in Slovakia.

¹⁸⁵ Möllering and Stache (2007) classify bribery as a "paradoxical and pathological practice", because bribery is triggering a vicious circlly by undermining formal institutions.

¹⁸⁶ Serres-E09.

*Estonians' equipment for the debt and that was all. If you have no acquaintances there (in Russia), then it is very difficult, in quite many places the business world rules do not apply, power and money are what pay.*¹⁸⁷

Thirdly, path dependencies or routinized behaviour play a role in preventing individuals in a cross border co-operation from 'de-learning'. "You need to control them intensively and check them in advance"¹⁸⁸ or "It is a daily fight with their mentality"¹⁸⁹ concerning the Czechs; or German entrepreneurs emphasizing that it is difficult to build up trust with Poles as they "(...) are a proud nation"¹⁹⁰ and "have big national pride"¹⁹¹ are stylized statements from German regions which are often used to explain non-trustful attitudes towards partners. Similar judgements also are found in all of the other case study regions, as discussed above in relation to cultural distance (see section 3.3.1). This implies that individuals continue to rely on 'learned' cognitive maps and behave accordingly¹⁹², even where this behaviour is detrimental to their cross border co-operation.

4. CONCLUSIONS AND IMPLICATIONS

In the final chapter, we now summarize the main results, reviewing the typologies developed previously in the light of the empirical evidence discussed in the previous chapter, in order to develop conclusions and implications for entrepreneurship theory.

Table 4.1 reviews the relations between trust and learning. Overall, the empirical results underline the conceptual assumption, namely that learning and trust cannot be regarded separately since these processes are inter-linked. Regarding the assumption that a high level of personal trust is needed for individual learning the empirical results discussed in the previous chapters confirm a reciprocal relationship between personal trust and learning: Individual learning is not possible without personal trust and personal trust is a requirement for individual learning. Furthermore negative experiences in cross border co-operations do have a profoundly negative

¹⁸⁷ South East Estonia-E13.

¹⁸⁸ Hochfranken-E03.

¹⁸⁹ Hochfranken-E19.

¹⁹⁰ Görlitz_E21.

¹⁹¹ Görlitz_E11.

¹⁹² Also see Chadarova (2007).

impact on building trust and learning at individual level. The same picture can be seen on the (inter-)organisational level where the empirical results confirmed that also at this level medium or high level of personal trust is needed, as assumed a-priori.

Table 4.1: Relationships between trust and learning

Forms of trust Levels of learning	Personal trust	Institutional trust
Individual	High level of personal trust is needed for individual learning to occur.	Not relevant
	Confirmed: Personal trust needs learning to emerge, and learning needs personal trust to take place. Negative experiences often prevent personal trust to emerge, and restrict learning to single-loop learning.	Not confirmed, instead evidence demonstrates complex relation between trust and learning: Institutional trust can be relevant for personal trust to emerge, and personal trust is required for individual learning.
(Inter-) Organisational	Medium to high level of personal trust is needed.	High level of institutional trust is needed.
	Confirmed: see quadrant above, also applies to (inter-)organisational learning	Confirmed: see quadrant above
Regional	Not relevant (?)	High level of institutional trust is needed.
	Relevant: Negative individual experiences resulting in overall low personal trust prevent learning in regions where this enforces cultural and cognitive distances towards neighbouring regions, thus resulting in low(er) levels of informal institutional trust.	Confirmed: see reasoning above for learning at individual level

Source: Authors

Regarding the question in the suggested typology how relevant the level of personal trust is for learning on regional level, the empirical data illustrate that low personal trust as a result of negative individual experience also restrains learning processes on regional level. Furthermore, this results in low(er) institutional trust, in particular trust into informal institutions, in regions where cultural and cognitive distances towards neighbouring regions are re-enforced by a low level of personal trust. Regarding institutional trust the empirical results show that high levels of institutional trust is needed on each level of learning. Both personal and institutional forms of trust are requirements for learning to occur on different levels. 'Learning to trust' into institutions on all levels (person, organisation, region) is triggered by experiences made with institutions at individual level, thus indicating the *importance of paying particular attention to the links between the macro environment and its impact on learning and trust building at micro level.*

All this takes on particular importance in a cross border context, where learning and trust are needed for the co-operation to develop successfully over time, thus drawing attention to those factors which would need to be addressed in order to ensure that individuals are able to realise the full potential of their cross border entrepreneurial activities. One of the main points emerging from the empirical data here is the complexity and reciprocal nature of the interrelationships between personal and institutional trust and levels of learning.

The second typology related forms and levels of trust in domestic and neighbouring regions to forms and the potential of cross border co-operations (Table 4.2). This ‘a-priori’ typology is difficult to confirm, as the empirical evidence does not allow for a clear cut classification of regions into low- and high-trust environments nor is the data detailed enough regarding the development potential of cross border activities. Moreover, as said before, the evidence confirms the dual nature of institutional and personal trust, which needs to be taken into account when interpreting the typology.

In general, the attitude of the population and institutions in the domestic region, reflecting in the level of overall institutional trust there, affects the willingness to cooperate across the border – on individual, organisational and regional level. Conceptually, we assumed that trust-building processes as well as learning processes in cross border co-operations are facilitated in environments with similar levels of trust. The empirical results confirm this for border regions with a high level of institutional and personal trust: In such regions, the potential for functioning cross border co-operations and further development is high. Furthermore, such high levels of institutional and personal trust facilitate the pattern of ‘earning trust’.

Table 4.2: Typology relating trust to types and potential of cross border activities

Neighbouring Region		Domestic region			
		Institutional trust		Personal trust	
		Low	High	Low	High
Institutional trust	Low	Little potential for all kinds of cbc.	Only potential for cbc if high level of personal trust substitutes for low institutional trust in neighbouring region.	Little potential for all kinds of cbc	Favours development of cbc based on personal linkages (hh, initial stages of enterprises cbc)
		Cross border activities occur in all surveyed border regions. Need to	Personal trust does not generally substitutes for low institutional	No evidence	Personal trust does not generally substitutes for low institutional

		differentiate between trust into formal and informal institutions.	trust in neighbouring region, but is complemented by supervision and control.		trust in neighbouring region (see second quadrant).
	High	only potential for cbc if low level of institutional trust goes hand in hand with high level of personal trust	Good conditions for all kinds of cbc	Favours institutional cbcs	Good conditions for all kinds of cbc
		Cross border activities occur in all surveyed border regions. Need to differentiate between trust into formal and informal institutions.	High levels of institutional trust facilitate 'earning trust'.	Not confirmed because institutional CBC also are grounded in personal trust.	High levels of personal/institutional trust facilitate 'earning trust'.
Personal trust	Low	Little potential for all kinds of cbc	Favours institutional cbcs	Little potential for all kinds of cbc	Only potential for cbcs if low levels of personal trust go hand in hand with high level of institutional trust
		Cross border activities occur in all surveyed border regions regardless of levels of trust. Need to differentiate between trust into formal and informal institutions.	Not confirmed because institutional CBC also are grounded in personal trust.	No evidence	No evidence
	High	Favours development of cbcs based on personal linkages (hh, initial stages of enterprises cbc)	Good conditions for all kinds of cbc	Only potential for cbcs if low level of personal trust goes hand in hand with high level of institutional trust in neighbouring region.	Good conditions for all kinds of cbc
		Institutional trust level in domestic region not relevant for CBC.	High levels of institutional/personal trust facilitate 'earning trust'.	No evidence	High levels of personal trust facilitate 'learning to trust'.

Source: Authors.

Regarding levels of trust, there is no evidence from the surveyed case study regions showing overall low levels of personal trust. Moreover, the empirical results demonstrate that cross border co-operations are possible and do function even when the level of institutional trust is low in the domestic region and/or the neighbouring region. However, we would need to differentiate between forms of institutional trust in order to adequately assess its role for cross border partnerships. The evidence illustrates that in regions with low trust into formal institutions, both personal trust and trust into informal institutions as reflected in cultural proximity is of importance for cross border activities to develop.

Summing up, the following main points emerge:

Nature of trust

- Personal trust and calculative trust (control perspective) complement each other. Personal trust substitutes for control (and a lack of trust into formal institutions) in

some of the former socialist regions (Bulgaria, to some extent Estonia, Poland). In such regions, it is required for a cross border partnership to develop.

- Personal trust in a cross border context is not 'blind' trust. Instead, it is based on 'learning to trust' over time and routinized behaviour. Moreover, genuine personal trust rarely dominates a business relationship.
- Institutional trust needs to be differentiated into trust into formal institutions (legal and political framework) and trust into informal institutions (culture).
- Trust into formal institutions is not required for cross border partnerships to emerge, but it gains importance in the longer run as seen in the surveyed Western European border regions (Greece, Germany, Finland) and some of the new member state regions (Poland, to some extent Estonia). A lack of trust into formal institutions however can impede personal trust (Estonia-Russia).
- Institutional trust in the sense of trust into informal institutions (as reflected in cultural proximity) is more important for cross border co-operations, because it allows personal trust to develop and it can substitute for an initial lack of institutional formal trust as seen in regions bordering highly deficient institutional environments (Bulgaria-FYROM, Estonia-Russia, Finland-Russia).

Nature of learning

- Learning occurs in two patterns, namely 'learning (international) entrepreneurship' and 'learning to trust'.
- Learning entrepreneurship is more apparent in regions with a socialist history and no reforms during socialist times, and generally on household level. Learning international entrepreneurship is visible in enterprise co-operations in all regions.
- Learning to trust reflects the fact that learning is needed in all regions for trust to evolve. The background and behaviour of partners, the nature of their relationship and experiences made with current and previous cross border co-operations influence this type of learning. Learning to trust is fostered by Western entrepreneurial identities, but also by shared regional identities (and vice versa).
- Learning also is triggered by negative experiences, which either restrict learning processes (see below) or result in higher level entrepreneurial learning, as reflected in evidence from all regions.

- Learning to trust and learning entrepreneurship are linked closely, especially in regions where one partner is from a post Soviet context, and 'earns trust' through 'learning entrepreneurship'.

Contexts and processes of trust building and learning

- At macro level, socio-economic proximity assists in creating collective identities either because of shared or 'known' cultures (Greece-FYROM, Bulgaria-FYROM, Finland-Sweden) or shared socialist experiences (Estonia-Russia, Bulgaria-FYROM, Germany-Poland, Poland-Belarus), although the latter also impedes trust building in situations where partners refuse to acknowledge their shared history (Estonia-Russia, Poland-Belarus). Moreover, despite shared cultures, a lack of national identities prevents trust to emerge in a cross border co-operation (Greece-FYROM, Germany, Estonia-Russia).
- Geographical proximity facilitates trust building and learning in a cross border context in all regions, because it allows for trust as control as well as genuine personal trust.

Processes of trust and learning

- Trust either is a result of prior trust or it is built through familiarising oneself with the new partner. The latter pattern is more common in enterprise co-operations.
- Throughout the process of building trust, personal relations can substitute for formalised relations. In most cases, personal trust and 'calculated' trust continue to exist alongside in a cross border co-operation. In some case study regions (Estonia, Finland), personal relations dominate the process of building trust from the beginning.
- Where trust is missing or cannot evolve, learning oftentimes is restricted. This is visible in all regions. Learning blockages result from negative experiences or over-trusting behaviour. They are reinforced by cultural distance and are simultaneously reinforcing cultural distance, thus hindering the development of cross border activities in the long run.
- EU enlargement contributed to an increase in cultural distance in regions with a mutual socialist background (Bulgaria-FYROM, Estonia-Russia, Poland-Belarus), thus impeding trust building in this regard.

In terms of *implications for theory and research*, the results illustrate that the duality of trust as stipulated by Möllering for trust and control (i.e., personal trust) also exists for institutional trust. In this regard, future research could seek to analyse further the extent to which such differences in the nature of trust in cross-border entrepreneurship foster or impede the development potential of cross border activities. Additionally, further research needs to pay more attention to the duality of genuine personal trust and control.

Moreover, results have demonstrated the close link between institutional and personal dimensions of trust. In particular, positive effects of cultural proximity on building trust and enhancing learning are enhanced by the existence of common entrepreneurial identities and vice versa. However, the underlying causal relationships are not clearcut and warrant further research: does trust need cultural identity or does the entrepreneurial identity come first?

Finally, results also emphasize the context- and process-dimensions of trust and learning. Conceptually, this poses challenges for our understanding of the trust phenomenon, as the process of building trust and learning is non-linear and self-reinforcing. In this regard, one lesson emerging from the research reported here concerns methods and methodologies of researching trust and learning. Taking into account the context- and process-nature of the phenomena in question, we would like to argue for future research to study trust and learning both qualitatively and longitudinally, in order to gain deeper insights into its nature.

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