

# **A NEW TOOL OF NETWORK ENTERPRISE IN ITALY: CONTRATTO DI RETE**

**Valeria Cocco, PhD student,**  
La Sapienza University, Rome, Italy,  
+39 3664900430,  
valeria.cocco@uniroma1.it

**Marco Brogna, Professor,**  
La Sapienza University Rome, Italy,  
marco.brogna@uniroma1.it

**Francesco Maria Olivieri, Professor,**  
Rome, Italy,  
francescomariaolivieri@gmail.com

## ***Abstract***

The aim of this paper is to analyze the Italian context in regards of two specific issues. The first issue refers to current models of agglomeration and networks in local economies and, in particular, whether State and local policies are capable to sustain regional development through specialization to encourage innovation. The second issue refers to concurrence and deviation determinants in the European context: the territorial gap. This analysis has also shown a fair degree of diffusion of this instrument in Italy, mainly related to the economic vocations of specific territories. Its flexible nature puts it beside the other forms of aggregation; first of all, the consortia and districts. The last point we aim to discuss is the potential role of network enterprises as applied to territorial competitiveness

## **Introduction**

During the last two decades, the most important model of aggregation enterprise model in Italy – Italian industrial districts (Becattini, 1998) - faced a deep crisis caused by several factors, such as the coming of new international competitors (Olivieri, 2014) and the overlapping of the international financial crisis, with degenerative consequences on the innovation and export system. Institutions have developed strategies and political approaches, not always successful, and even profoundly different and in some cases, exactly the opposite, such as Rostow's theory, Perroux's framing, Hirschman's economic dualism, Myrdal's circular and cumulative causation, the “approaches from below” or bottom up (Conti, 2012). This depends on the multiscale territorial dimension of development planning (Dematteis & Governa, 2005). For that, policies should be addressed to local and regional bodies, and at the same time to different levels of government (European and Italian). The concept of dimensional local economy, meaning temporal dynamics with the territorial dimension, is useful to rationalize the degree of social and economic development of a territorial system.

## **Theoretical backgrounds**

According to Piketty, economic growth has led to economic wellness, but it appears to be ineffective in terms of “social” wellness. In order to reach social wellness, it is necessary to analyze how economy stands within society.

In the case of Italy, the theoretical background can be limited to the following literary review:

- i) the relationship between economic growth and socio-economic development linked to territorial gaps;
- ii) spatial analysis of regional systems, featured by industrial take-off process, and specific strategy and different approaches: Rostow, Perroux, Myrdal and Hirschmann, and bottom up approach.

The objective of territorial analysis allows to understand the dynamics of territorial competitiveness (Piketty & Saez, 2013). First of all, in order to achieve this aim, it is necessary to identify the territory. Another element, not just a corollary, is the contextualization, or rather, the insertion of this territorial "system" into the concept of imbalance, in particular if we refer to a territorial system located in the Italian southern area called Mezzogiorno.

Since the end of World War 2, public policies have constantly failed at their goal to reduce territorial gaps: this was for instance the case of the Italian ones (Cassa per il Mezzogiorno, IRI) and the European Regional strategies (Structural and Cohesion Fund). More specifically, these results disregarded the involvement of local actors and communities. In addition, the degree of involvement of the local actors was very limited.

We could summarize the reason of the failure in the following:

- modifications of territorial economic and social system from agriculture to manufacturing (Spinelli, 2014);
- concentration of stimulating growth in some territory that involves the level of territorial development (Celant, 2010);
- two conflicting interpretations of dualistic model of so called «Terza Italia» (Bagnasco, 1977).

The introduction of the tool Contratto di Rete - network agreement - in the Italian law system in 2009 is a booster for the territorial competitiveness.

### ***Territorial competitiveness and territorial gap***

The concept of territory, in its most useful declinations, helps the identification of territorial system as a set of physical, historical and socio-cultural characteristics. It is the complex of material and human resources, however localized, that are defined by specific physical-environmental, cultural, ethical and ideological characters, such as political and social practices.

The identification of a territorial system results from identification and organization by local communities and specific cultural and life systems. Territorial system is a vital system characterized by evolutionary capacity, that pursues survival. The dynamics of territorial systems are compared with the evolution of regional systems: territorial systems in transformation, both quantitatively (growth) and qualitatively (development). According to some authors, territorial system is defined as the paradigm of uncertainty, characterized by the complexity both of the unpredictability of its manifestations and its social and political action. Generally speaking, the "global-local scene" is displayed in economic, cultural, and broader competition. The issue of territorial identity emerges, both in reference to the

country-nation, and to the different territorial systems. It means that different territories are compared and they face competition with geographically and culturally distant realities, looking for the possibility of triggering a more appropriate process of renewal to increase local development.

The concept of competitiveness is influenced by globalization that has produced a radical expansion of market areas. The ability of a territory to generate value is directly related to its competitive ability. Value creation in a territorial system depends on competitiveness. Not only with respect to the value of a product that competes directly with all of its substitutes. The territory is like a company: it can be characterized for greater or lesser competitiveness and it can attract new investments. Or, vice versa, this opportunity can turn into the risk to be relocated to different geographic areas - probably to the distinctive ones for the most suitable economic conditions -.

A delimited territory competes with others to acquire, maintain and develop productive activities. The way for a territory to attract resources from the outside is to be competitive. The local dimension is based on the exploitation of local resources, with the potential for diffusive and multiplier effects in terms of growth. The greater the number of people actually is involved, the more the territory will be competitive.

Territorial competitiveness depends on:

- transferability of tangible and intangible resources to space;
- strategic and operational choices from territorial systems (investments, exploitation of available resources);
- initiatives to promote local development.

The definition of competitiveness is therefore "contextualized" because it depends on the conditions that an area offers for the positive development factors to improve its autonomous ability. Therefore, a territorial system has competitive capacity, if it is able to acquire different resources and to find different factors; including external resources and material, immaterial, tangible and intangible factors, that are relevant to the effective and efficient realization of a sustainable development process. At the same time, a competitive territorial system is able to provide these factors with the best environmental conditions to develop and exemplify their positive potential in the same territory. Territorial competitiveness is not reduced to a simple transposition of the concept of economic competitiveness into the geographical context, thus, territories are not easily comparable. The mechanisms that favor the growth and sustainable territorial development are deeply different from one to another – i.e., Marshallian industrial districts and the new approach to business districts, or, even, the paths of development of rural areas through the anthropic valorization of natural elements (Salone, 2005). Territorial complexity is a key point in the analysis of territorial gaps and processes of local development. Enterprises' expectations can be a conditioning element: companies with similar characteristics tend to locate in similar sites. Even the territorial policies are a factor of the territorial competitiveness. Amin and Thrift (1997) used the expression "institutional thickness" to point out that institutional relations are indissoluble from the territorial and cultural context, because they appear difficult to imitate or export, and become characteristic of the local economic system.

### *The network enterprises*

Network enterprise is a current aggregation model, referring especially to small and micro enterprises. One of the main reasons motivating enterprises to join a network is definitely the opportunity to expand their market. This is possible thanks to the tool of Contratto di Rete (Network Agreement), introduced in 2009 in the Italian Law to stimulate innovation and specialization.

The network contract is, in fact, a concrete strategic support to business growth, which through an increase in business size and in competitive ability, have the potential to penetrate new international markets and thus compete in the global market (Bramanti & Salone, 2010). The network contract safeguarding the independence and autonomy of individual network-based companies is a valuable tool for increasing competitiveness, innovation and internationalization.

Among the various forms of territorial aggregation, network enterprises are particularly beneficial as they link enterprises in a relationships network that tends to strengthen trust and encourages the practice of working together, thus improving mutual knowledge and relational skills (De Marchi & Grandinetti, 2014). Therefore, rather than a simple business agreement, this is an organizational model configured in a systemic approach (Brognia & Olivieri, 2016).

Territorial networks expand boundaries and intensify functional relationships between companies. The introduction of the network contract aims to create a business combination with defined goals, including corporate collaboration to spread innovation and therefore to increase its business size in order to penetrate new international markets, using diversified tools within the network itself. For this reason, in the current and changed international economic scenario, a business network appears to be potentially able to fill that structural deficit in terms of competitive capacity and innovation, especially for SMEs, which have often the size of micro-enterprises in Italy. The development of a form of aggregation that, while not affecting the nature of the enterprise, changes its internal / external relations, and hence a part of the structure, depends on the change in the Italian business culture.

The innovation proposed by the network contract affects the competitive dynamics, reducing on the one hand internal protection and favoring, on the other hand, an internalization process in the network of those skills of which one or more companies are lacking. The network contract appears to be one of the new tools available to companies, whose choice will depend on both the ability to respond to the real needs of the individual company and its vocation to imagine a new structure that goes beyond promoting and sharing some collateral or support activities, but that may also concern the main business.

The network enterprise in its aggregation form based on the network contract has a degree of flexibility in terms of application and a system of diversified objectives. Therefore, the network contract does not change the corporate structure of the enterprises joining the network and does not "lose" the organizational, management and financial autonomy of the single enterprise. The aim of this current agglomeration model is also to increase their "innovative and competitive" economic capacity by drafting a common program defining the form and scope of collaboration, the exchange of information and the performance nature of this dissemination.

### *Network enterprises' advantages*

The main advantages of territorial aggregations for productive purposes consist in a set of factors as external and scale economies, sharing and reducing costs, innovation and competitive ability and operational consequences. In this case, it is possible to expand the range of products and / or services offered, as it directly results from the synergy that businesses decide to set up. For this reason, at a theoretical level, it is possible to imagine further enhancements of existing products: incremental improvements, new products, and addition of specific services to the existing product. Network enterprises have increased their advantages due to systemic properties. This is necessary for any economic organization in a globalization context. In addition, in the network enterprises, it is possible to access the resources that are internally stored in the network that were previously absent, which involves a reduction in both the quantity and the timing of the investment.

Another great opportunity for the network enterprises is the access to credit by financial institutions and the availability of funds from public institutions. The network contract creates a group of companies that behave as a single enterprise characterized by a wide individual dimension. This is able to create the needed criteria to facilitate the access to credit and public funds. The tool of Contratto di Rete is also promoting and encouraging the technological and innovative development, that is dependent on costs reduction. The interaction between the various local agents with specific knowledge and the possibility of recombining external and internal knowledge facilitate the construction of an innovative pathway. Technology and specialization of the enterprises joining the network can facilitate the penetration into new markets with greater competitive ability linked to the promotion and thus the visibility of a range of products. In this case, it might also consider the opportunity to join, acquire, participate in the realization of trade marks or quality certifications. The use of certain technologies can, too, reduce the cost-impact of some variables, such as environmental costs and increasingly important waste disposal. A corollary in the advantages is also an opportunity to reduce learning costs through local learning by imitation and learning by emulation processes. Potentially, in the network contract, the magnitude of these actions seems to be considerably greater than other aggregations based on territorial contiguity. In theory, the network contract appears to be a potential tool for generating added value: - for companies in the same product sector that have difficulties in acquiring and managing new customers; - for activities downstream of the process: distribution and, above all, promotion; - for enterprises not physically close, overlapping the idea of physical proximity in favor of the functional proximity.

### *The network contract distribution*

What comes out from to Unioncamere - Infocamere System data about the current situation in Italy and the network enterprises distribution is that 1,643 network contracts were active on July 1st, 2014 and 1,590 on June 1st, 2014. The number of companies that have opted for network contracts is 8.095 (July, 2014) and 7.870 (June, 2014). In just one month there is a relevant growth in the number of networks. The spread of the tool of network contract is on the rise: from 2013 till today, there has been a considerable increase, about 60%. More than 50% (52%) are micro-enterprises and 31% are small companies. The two regions with the highest number of network contracts in absolute value (Fig.1) are Lombardia and Emilia-Romagna. In the first region, there is about one third of network contracts and at the same time there are more than 1,800 companies which have joined a contract-based network. More than 225 agreements have been made in Emilia-Romagna and the companies that have

chosen this instrument are over a thousand. Abruzzo, Toscana and Lazio record over 100 network contracts. These regions, and Veneto as well, belong to the second class compared to companies in a network contract (401-1,000). The network contract is less widespread in Trentino-Alto Adige, Friuli-Venezia Giulia, Umbria, Sardegna, Basilicata, Calabria, Sicilia and in particular in Valle d'Aosta and Molise, where the data are influenced by the small number of companies. Overall, only 0.15% of the Italian companies adhere to a network contract and the region with the highest density of aggregates (0.5% of the total) is Abruzzo. In some regions, which have shown a marked orientation towards the network contract, the choice was supported by supplies promoted by the local regional authority: Lombardia, Abruzzo, Emilia-Romagna and Lazio. An aspect that seems to be relevant is the type of network contract used: about 91% of companies adhere to an object-contract and only in a residual way to the subject-contract, about 9% (9.6% in July 2014 and 8.8% in June 2014). Obviously, as business activities become more complex, the structure and configuration of the contract are increasingly growing; so, the subject-contract, albeit less widespread, appears to be the right way to respond to specific needs, being a new legal entity, with its own personality, common fund and an autonomous decision-making system.

From the spatial point of view, both types of agreement show the largest spread in Lombardia. The object-agreement shows a homogeneous distribution across the totality of the tool. The residual type by size of the subject-contract, however, registers a higher use in Toscana, Lazio and Puglia, especially compared with Emilia Romagna and also, Abruzzo and Veneto. Moreover, this mode shows a greater diffusion than the total in other regions: Piemonte, but especially Liguria. From a dimensional point of view, a greater number of companies choose the more widespread form of contract. In Piemonte, Toscana and Puglia, and to a lesser extent in Lombardia, Veneto, Emilia-Romagna, Liguria and Sardegna the greater number of companies choose to join the less widespread type of contract. Lazio, and in particular Abruzzo, also show a greater "vocation" towards the most widespread form from the point of view of the numerous companies. Finally, firms located in the Center-North of the Peninsula seem more oriented towards the use of the subject-contract than those of the Center and The South, with the only two exceptions of Puglia and Sardegna.

The current context shows contract-based enterprise networks focused on a particular product, good or service, or belonging to the same sector, in order to take advantages from the benefits, especially upstream of the production process, to get access to credit, and also to favor internationalization.

Service industry is the most widespread from the point of view of businesses (about 44%). Within it professional accounting and legal and ICT related services stand out. In addition, a specific relevance concerns trade and tourism. 32% of SMEs adhere to industry-leading contracts, where they find some branches: metalwork, fashion and construction. Almost 9% of the agro-food networks are used.

More than 80% of the contracts are made by companies specializing in different and sometimes complementary production sectors. In this case, the network starts new synergies and skills sharing. The main target of the companies joining the network is the small enterprise with an international vocation with a higher share of exports and internationalization. In particular, the potential of this instrument could be amplified by the need to continue the economic crisis (public relations and access to credit) and, above all, from the structural aspects (innovation, internationalization, export).

A localization quotient was developed and compared to the main typology used - the object-contract - to evaluate the specialization of companies involved in network contracts with respect to the business sector (Agriculture, Industry and Crafts, Commerce, Services, Tourism, Other Industry). The localization quotient is defined by a ratio, whose numerator is the sectoral share of the region considered (the number of firms contracted for the specific sector in the region with respect to the total number of undertakings participating in the network contract in the same region) and the denominator is the same sector referred to Italy.

$$(1) \quad \frac{I_{ij}}{I_j} \bigg/ \frac{I_i}{I}$$

Where:

- $I_{ij}$  represents the number of companies belonging to the network contract of the sector  $i$  in the region  $j$ ;
- $I_j$  represents the number of companies which are members of a network contract in the region  $j$ ;
- $I_i$  represents the number of companies belonging to the network contract of the sector  $i$  in Italy;
- $I$  represents the number of companies which are members of a network contract in Italy.

The territorial specialization of the companies involved in a network contract in the agricultural sector takes place in many regions, but with a strong result in Sardegna, Friuli-Venezia Giulia, Liguria, Toscana, Umbria, Campania, Puglia and Calabria. These regions are traditionally characterized by a significant vocation to the primary sector. In Piemonte, Veneto, Marche, Lazio, Molise, Basilicata and Sicilia (middle class), the coefficient represents a higher value than the unit, denoting a territorial specialization of agricultural companies that are higher than the national average. In the Tourism sector, Valle d'Aosta is in the upper class, Liguria and Calabria in the middle-high and the remaining regions of the Mezzogiorno in the middle class (above 1), with the exception of Sardegna, but with Abruzzo and Veneto. Other types of sectors show greater homogeneity. Industry and Crafts show a distribution around the two central classes, with mostly of the local centers in the North in the class above 1 (national average): Valle d'Aosta, Piemonte, Lombardia, Emilia-Romagna, Toscana, Marche and Umbria. The services sector shows a similar tendency, albeit less accentuated, with Trentino, Toscana, Lazio, Abruzzo, Molise, Puglia and Basilicata in the middle class and with the only regions of Valle d'Aosta and Umbria in the lower class. The activities of the Trade show a slight variation in the quotient with ten regions in the middle class (Piemonte, Lombardia, Trentino-Alto Adige, Veneto, Abruzzo, Molise, Campania, Puglia, Calabria and Sicilia) and three regions in the low class (Valle d'Aosta, Friuli-Venezia-Giulia and Sardegna). For these latter types, distribution appears sufficiently consistent with economic activities on a national scale. Finally, the other residual sectors show a tendency for specialization in the regions of the South and the Center compared to the northern ones. The network contract draws attention to a form of connection between companies belonging to the same sector or to different sectors. In this latter case, the instrument could bring about specific benefits by promoting a synergy between businesses with possible added value margins and companies with specific innovative capabilities. For example, companies in the agricultural sector and companies carrying out support activities or activities aimed at increasing the degree of innovation in the primary sector. The network contract could fully exploit its potential, as businesses may not be located in the same territory. The possibility of

a system of functional relationships that exceeds physical proximity could be an advantage for the production process and for the respective chains.

### **Conclusion**

The network contract is believed to be a tool that focuses on some leverage, such as innovation, allowing micro-enterprises and the SMEs to create a system with the goal of penetrating new markets and generally increasing its competitive capacity. This is possible in a variety of ways: collaboration, exchange, joint exercise, formation of a common fund and the establishment of a decision-making system, or without modifying its corporate structure, but increasing its size.

For the considerations given in the contribution, the contract for the establishment of the network enterprises appears to be one of the new tools that the Italian business system has among its possibilities. Development, however, depends on the choices of the business system, which must be accompanied by public institutions to get the opportunities of this instrument. Ultimately, the network contract can enhance the role of autonomy with an organization characterized by the network program and less tied to an economic sector and to a particular production. Compared to districts, and broadly to territorial systems, it represents a more flexible organizational form.

However, we must stress the potential of this instrument for conclusive considerations. The evolutionary nature of the instrument make the network contract a new meta-institutional entity, capable of being an actor of local development. In the phase of a structural economic crisis exacerbated by the recent financial crisis, the network contract as a tool for creating a network enterprise, a reality already consolidated in the Italian production system, can be a strategy to support the local economic system. The network contract represents, in fact, the creation of a regulated system, not necessarily spatially concentrated, for the production of shared projects and the growth of the competitive and innovative capacity of the participating companies as a whole network, not just individually.

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