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Small and medium enterprises'
networks. The most important
managerial and institutional
aspects.

Supervisor

Chiara Saccon

Graduand

Solomiya Ozhibko
832531

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CHAPTER 1

1. Dimension matters?

With the entrance of global competition and the introduction of modern technology, the international markets have changed their rules and the survival of small and medium enterprises became harder. Companies need to have certain characteristics in order to survive and to be competitive. In particular, a certain type of structure and dimension are required in order to support their sustainable growth and to guarantee resources necessary to reach higher levels of innovation in order to achieve a competitive advantage in the international market¹. Moreover, dimension counts not only from the “quantitative” perspective, but also because it permits companies to reach and perform competencies which small and medium enterprises cannot.

The dimensional issue has involved many countries, and Italy is one of these. By analyzing the objective data of the country, the prevalence of small and medium enterprises becomes immediately evident. In the matter of fact, statistics about the competitiveness of the Italian enterprises confirms the following numbers:²

- The count of *microenterprises* (those with less than 10 workers) has recently increased to 4.1 ml and represents the 95.2% of the total number of the Italian companies. However, despite their size, such companies employ approximately 47.5 % of the total number of employees and contribute to the 30.8% of the total value added achieved by the country. However, 2.4 ml of these enterprises employ only one worker.

¹According to Ricciardi A., in “*Le reti di imprese. Vantaggi competitivi e pianificazione strategica*”, Franco Angeli, Milano, 2003, (page 6), company’s structure and development cover the crucial role in their competitiveness advantages achievement.

² The above provided data are the result of the elaboration of the report provided by ISTAT, named “*Struttura e competitività del sistema delle imprese industriali e dei servizi. Anno 2012*”, 27th of November 2014



- *Small and medium enterprises* (those with a range of 10-249 workers) employ 33.1 % of the total number of employees and contribute to the creation of 37 % of the total value added.
- *Large enterprises* (firms employing more than 250 workers) employ 19.1 % of the total number of workers and create 31.5% of the total amount of the surplus value.

Considered the above-provided data, two important consequences follow. On one hand, the almost complete prevalence of small and medium enterprises in Italy represents a phenomenon to encourage, because of the positive results in terms of value added these companies have presented in the last years.³ However, such opinion is not commonly shared, and, when moving to the international perspective, the situation changes. In fact, the problems related to SMEs become much more evident, if we consider them from the “global” point of view.

In particular, one of the emergent problems, deriving from the dimensional problem of the Italian economy, is the limited capability of the Italian companies to expand in the international market (Ricciardi et al., 2003). While the second relevant issue is the lack of innovation, not only related to products, but also to production processes. The inability or the refusal of small and medium-sized companies to grow internally derives from many different factors, such as low propensity to risk, absence of the financial resources and lack of competencies, necessary to expand internationally. For this reasons, some alternative strategies have to be implemented, in order to deal with the issues presented by the dimensional composition of Italian enterprises.

A deeper analysis on the evolution of the dimensional composition of the Italian economy will permit us to observe that the above-illustrated problem has even worsen in the last decades. In particular, during the decade 1971 - 1981, the count of small and medium enterprises has increased sharply and has reached the

³ Due to the “*Report on SMEs 2005*”, realized by the Unioncamere and Istituto Tagliacarne, the contribution of small and medium enterprises to the Italian GDP was 85% in 2005. Such data are the result of elaboration of Ricciardi A., “*Le reti e le aggregazioni d’impresa*”, Milano, 2011, page 10.



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number of approximately 2600 firms⁴. Then, in the next two decades, it has experienced a very limited growth, with circa a few hundred units extension per decade. In particular, the period 1971-1981 is important because it signs the years characterized by the creation of a high number of the small and medium enterprises. In the matter of fact, the statistical data show that the mean age of the major part of small-medium companies is of 30 years, this furtherly confirms that the largest part of them were created exactly in the above mentioned decade. A further relevant consideration to add to this analysis is that the majority of SMEs were created in the period characterized by the large companies' crisis, and not because of the small firms' evolution. Consequently, the dimensional issue of Italian market is not recent. However, it is also important to underline that a large part of small and medium enterprises were born inside industrial districts, where family, traditions and historical patterns played a crucial role for their development, and such element has highly influenced their development (*see par. 1.3 "From districts to networks"*).

The smaller increase of the number of SMEs in the decades after 1981, can be explained by the fact that most of them were situated inside industrial districts, which have experienced a crisis in that period. Consequently, a much smaller quantity of companies aroused after the year 1981, compared to the previous decade. Evidence shows⁵ that also the number of workers employed has experienced a decrease since the year 1981 (it has decreased approximately from 26 to 12 employees per company). This is one of the major consequences of the increase of the number of small and medium enterprises, which usually involves simplified production and managerial processes. Moreover, a big part of the Italian businesses were created and remained managed by families. Consequently, the involvement of external employees and managers rarely occurred, and this has

⁴ The above provided data were extracted from the study realized by ISTAT, "*Struttura e competitività delle imprese*", 2013, pages 1-2.

⁵ The above provided data are the result of the study by ISTAT, "*Struttura e competitività delle imprese*", 2013, page 4.



contributed to a further complication of the already existing problems. In the matter of fact, evidence shows that circa 70% of Italian companies are family-owned.

With reference to the “family-ownership” phenomenon, two diverse perspectives exist. Despite the potential disadvantages of such phenomenon, in some cases, important Italian families have given life to the most famous Italian products, especially in the fashion, food and furniture industries. All these initially small businesses had a high-quality artisan product at the basis of their success. However, that was not enough to make them grow internationally and make a step forward in the global market. In the matter of fact, companies that implemented correct strategies in order to expand internationally have built their competitive advantage on their products. This has even more contributed to their success and uniqueness. On the other hand, there are many other enterprises, managed by family-owners, which are not able to develop internationally. In the matter of fact, many authors (Dunford M., Greco L., 2008) argue that “family management can lead to inefficiencies in most cases”⁶. The authors also put in evidence the fact that, family members are often “insufficiently qualified to identify and put into action strategies necessary to bring their companies to the global level”⁷. While they may have important experience in the Italian market, they are not able to challenge the requirements of the global economy. This may cause the refusal of such type of companies to grow because of their low inclination to risk and absence of competencies. The lack of desire to innovate their products and processes represents one the most serious issues of the family-governed enterprises. Moreover, these companies are, in general, extremely attached to their old methods and traditions that may not be suitable for the modern world of business anymore. Additionally, conflicts of interests between different family

⁶ Dunford M., Greco L., in “*After the three Italies*”, 2008, describe the consequences of the family-ownership phenomenon on the Italian economy. They illustrate the most important implications of this phenomenon. In particular, the data on the number of family-owned enterprises in Italy are the result of the elaboration of pages 1-36.

⁷ Dunford M., Greco L., “*After the three Italies*”, 2008, page 12.



members may be another reason why family-ownership can cause inefficiencies in the companies' management. As the conclusion, except some particular cases, family management leads to the inefficiency in the market for corporate control, if the companies do not implement the correct strategies in order to enhance the situation, or do not make recourse to the appropriate professional figures. A further matter of complexity arises from the additional issues; such issues derive from the fact that the majority of firms present a limited level of international development due to their low inclination to risk, absence of specific knowledge and competencies necessary to be able to compete with international companies, and absence of the financial resources.⁸

Summarizing, the most significant issues related to the Italian economy composition can be contained in at least three main categories of limits⁹, which inhibit its growth and development. In particular, these main limits are evident as:

- A limited capability of technological innovation, related to both product development and production processes.
- Inability to obtain investments, necessary for the companies' growth.
- Limited capability to enter and to compete in the global markets.

Independently from their causes, all the problems above illustrated represent an obstacle for the development of Italian companies. The introduction of the global competition has only accentuated the already existing issues of small and medium enterprises¹⁰. The recent crisis has involved, in different measures, all the important sectors of the country's economy. As we have already mentioned,

⁸ According to Soda G., in *"Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese"*, Carocci Editore, Roma, 1998, the major difficulties inhibiting the development of small and medium enterprises, derive from the lack of resources and knowledge, necessary to achieve competitive advantage.

⁹ According to Ricciardi A., in *"Le reti e le aggregazioni d'impresa"*, Finanza e gestione per le imprese lombarde degli anni '10, Milano, 2011, (page 11), there are at least three categories of limits which inhibit the growth of the Italian SMEs. Such limits are enlisted above.

¹⁰ Maskell P., in *"Towards a Knowledge-based Theory of the Geographical cluster"*, in Martin R., *"Economy: Critical Essays in Human Geography"*, pages 377-399, underlines how the global competition has complicated the situation of SMEs, and how the increasingly changing markets present a series of requirements, which the majority of these companies do not possess.



companies need to identify and implement the appropriate strategies, in order to overcome their limits and enhance their competitiveness and innovation levels.

Between the strategies available to solve the above-mentioned issues, many authors (Soda, 1998, Grandori 1995, Ricciardi, 2003, et al.) have studied the inter-firm aggregation strategies, and have identified the network model of cooperation, as an efficient compromise, especially for small and medium enterprises, in their attempt to manage the issues related to their dimension. This mainly because the network model of aggregation permits companies to enhance their overall performance, by still preserving their juridical autonomy. In the matter of fact, such form of aggregation is already largely implemented between Italian enterprises, and has proved to be successful in many cases (empirical evidence will be provided in chapter 3). Evidence shows¹¹ that, the main Italian sectors, where aggregation between enterprises is now very popular, are food, mechanics, plastic and rubber, textile and fashion, shoes and leather, furniture, gold working and paper industry. “There is a lot of companies in Italy which operate in these industries by contributing to the 46% of the Italian GDP”.¹² However, it is also important to understand, that network instrument itself does not represent a guarantee of success. In the matter of fact, only if the companies implement all the strategical tools, provided by the internal and external environments, appropriately, can a sustainable growth based on innovation and competitiveness enhancement be possible.

As a conclusion, the prevalence of SMEs in Italy must not represent an insolvable problem. In fact, many policy makers think that the small and medium

¹¹ The list of the Italian sectors involved in inter-firms cooperation is the result of elaboration of Ricciardi A., in “*Le reti di imprese. Vantaggi competitivi e pianificazione strategica*”, Franco Angeli, Milano, 2003, page 2.

¹² Ricciardi A., “*Per vincere l’impresa farà rete*”, Economy, 2012, page 48.



enterprises' development has to be encouraged, because of the positive results they have achieved during the years¹³.

Considered this, our thesis will consist in demonstrating that these companies can continue to exist, to maintain their independence and conserve Italian traditions, but, on the other hand, enhance their overall performance in order to become efficient global players. Significant issues related to such strategies will be also presented, such as the institutional framework provided by the Italian policy makers. However, this will be the subject of the next chapter. At this stage, we will continue to analyze the general characteristics of the network phenomenon as a strategy to solve the Italian dimensional problem and its main characteristics.

2. Cooperation as a strategy for small and medium enterprises

“As the Italian economy is mainly based on SMEs, which cannot or do not want to grow, the first thing these companies have to do, is to implement industrial politics which will help them to solve their organizational issues”¹⁴. The author (Ricciardi, 2013) also underlines how the decisions in this direction have to be weighted carefully, but also rapidly, because the stability of the Italian employment system, the production flexibility of large organizations and the overall financial performance of banks, all depend from the economical propensity of small and medium enterprises. This statement furtherly confirms the data provided on the Italian enterprises competitiveness, provided in the page 1. Consequently, networks of companies will be analysed as a potential tool to solve the existing problems related to the Italian dimensional problems, such as those mentioned in the previous paragraph. In particular, we have discussed how the dimensional problem and the inability of the companies to implement the

¹³ Ricciardi A., *“Le reti e le aggregazioni d’impresa”*, Finanza e gestione delle imprese Lombarde degli anni '10, Milano, 4 febbraio 2011, page 12.

¹⁴ The statement is the elaboration of Ricciardi A., *“La rete come incubatore di innovazione per le imprese agroalimentari”*, PianetaPSR numero 26, Novembre 2013, page 1.



appropriate strategies to develop internationally represent the main issues of the country's economy. Moreover, the prevalence of the small-medium sized companies in the Italian market represent a serious obstacle in becoming a competitive actor in the global market. However, considered that many Italian SMEs have experienced positive data in the last years, such companies have to be encouraged.

Primarily, some alternative solutions in order to permit small and medium companies' growth should be identified. On one hand, such strategies should attempt to preserve such companies' autonomy and uniqueness, but also permit them to acquire all the necessary resources to compete with global enterprises. A solution is possible if implementing a "quality-relational" approach¹⁵ between in the enterprises' relationships. Companies can organize in many different aggregation forms offered by the Italian juridical system, in order to put together their knowledge and resources. In particular, organizing in a network of companies represents, in the last years, one of the largely utilized forms of cooperation between companies¹⁶. Not only it helps companies to increase their capabilities related to competitiveness and innovation, but also it offers a number of important advantages introduced by the Italian law system in order to promote the cooperation between small and medium enterprises and provide support to the industrial sectors in crisis. Additionally, authors like Wilkinson (2001), argue how the competition is now present in two different categories: between single firms and between "networks of businesses".¹⁷ This happens mainly because firms become always more aware of the fact, that they have to rely for external partners,

¹⁵ According to Zilio Grandi G., Biasi M., in "*Contratto di rete e diritto del lavoro*", Cedam, 2014, page 12, the "quality-relational" approach in inter-firms relations consists in the combination of firms' strategical resources and the synergies they create.

¹⁶ Cardoni A., Tiacci L., Saetta S., provide evidence on the network agreements data in "*Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations*", Università degli studi di Perugia, 2012, pages 3-5. Such data will be discussed more in detail in the chapter 2.

¹⁷ Wilkinson I., "A History of Network and Channels Thinking in Marketing in the 20th century", School of Marketing, University of New South Wales, Sydney, Australia, pages 3-4.



such as suppliers, distributors, etc. and such relationships do not have to be taken for granted.

Additionally, the “network” instrument represents to small and medium enterprises a tool to solve the issue of the lack of flexibility, necessary to compete with large global corporations. Analysis of the most important elements of the network form of cooperation between companies will be the main topic of our discussion in this chapter. Considered that our main objective will be providing some of the most efficient solutions to the problems of the Italian economy, analyzing all the important aspects of the network phenomenon will help us to demonstrate its supremacy over the existing forms of aggregation. We will start from the analysis on the formal definitions available, which will permit us to extract the most significant elements of such form of aggregation.

The economic literature offers many definitions of the network phenomenon. Exactly as in case of other subjects, scholars do not completely agree on the unique definition, so more of them will be provided and compared. Between the most widespread definitions of the network of companies, the first and most simple one is "*a type of organization between companies with the aim of obtaining advantages from their collaboration*"¹⁸. This definition seems to be very efficient because it is quite short and simple, but on the other hand, it underlines the key objectives of the network form of aggregation: "*obtaining advantages from their collaboration*". However, it is not really specific and precise, and misses some important aspects of the phenomenon. Despite the presence of numerous existing definitions of the network model, such cannot be considered completely different between each other, but complementary¹⁹. The main distinction between them consists in the division of scholars in two main categories: those who consider network as an important, but informal type of aggregation between organizations

¹⁸ The definition provided is the result of elaboration of Soda G., in "*Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese*", Carocci Editore, Roma, 1998, page 37.

¹⁹ According to Zilio Grandi G., Biasi M., in "*Contratto di rete e diritto del lavoro*", Cedam, 2014, the existing definitions of the network are not opposing between each other, but each of them present a different perspective and contribute to a higher understanding of the phenomenon.



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and those who consider the aggregation between companies as a natural process. In the first case, a network can be compared to a joint venture or a merger, a form of collaboration between businesses with the objective to reach their common goals and to benefit from the potential advantages, but without becoming officially a unique big company. This definition underlines the aggregation and the informal aspect of these relations between businesses. The basis of this form of model consist in mutual interdependence between companies in seeking their goals and in a relationship of mutual trust between them. One of the more important aspects is also the allusion to the short-term of this form of cooperation between the companies, utilized to reach their objectives without the becoming a unique group of companies. While the second part of economists consider a network as a more natural process, as an aggregation of enterprises which can be compared to, or which can replace other forms of aggregation and take different forms, such as, for example, “network of companies” or “network of consortia”. From the economic perspective, the formal definition of a network of companies is the following: *“a set of autonomous companies with the aim to reach the economic and financial objectives of all the parts, by exploiting their technical and economical complementarity, and to benefit from the indirect individual advantages which derive from such collaboration”*.²⁰ This definition offers a more complete vision on the phenomenon of networks, compared to the previous one. It underlines the main aspects of the network of companies, such as the possibility to gain competitive advantage by exploiting the diversity of the interconnections within the network, and the possibility to increase innovation capability of the enterprises involved, without undermining their juridical autonomy. In addition, the provided definition suggests that, not only organizing in a network offers companies some evident direct advantages deriving from cooperation, but it also contributes to the creation of important synergies which will serve as indirect advantages of the network collaboration. A further widespread definition is

²⁰ The above provided definition is the elaboration of the network definition of Bastia P., in *“Gli accordi tra imprese. Fondamenti economici e strumenti informativi”*, Clueb, Bologna, 1989.



related to the above-mentioned category of scholars, considering networks as a more natural phenomenon. Such definition is the following: “*a network of businesses is a set of companies based on a relationship of mutual trust whose final objective is to achieve a unique production, marketing, and research and development activities, by doing mutual investments to reach these objectives.*”²¹

The main idea of such definition consists in the awareness of the companies that by organizing in a network, not only can they benefit from several advantages, but also have a possibility to create value in long term, which would permit them to furtherly develop in the international market²².

Beyond the different perspectives on the network phenomenon provided by the above-mentioned definitions, a more complete idea of the phenomenon derives because of such. In particular, from the compositional perspective, four elements necessary to be able to consider an aggregation of enterprises as a network can be identified²³:

- Fundamental is the presence of a plurality of companies (at least two companies), the so-called “knots”.
- Those companies, involved in a network, have to be autonomous, both from the juridical and substantial perspectives.
- The aggregation will need to have at its basis the relationship of mutual trust and mutual interest of reaching similar or identical goals; organizations need to have similar characteristics in their way of doing business and similar expectations from the collaboration.
- The realization of a common productive, commercial, marketing, learning and research and development activities between all the participants.

²¹The network definition of Ricciardi A., is the elaboration of “*Le reti di imprese: aspetti gestionali, normativi, fiscali*” in *Amministrazione e Finanza*, 2013, pages 8-9.

²²According to Zilio Grandi G., Biasi M., “*Contratto di rete e diritto del lavoro*”, Cedam, 2014, page 9, the network model offer the companies the appropriate instruments not only to achieve their short-term strategic objectives, but also to create long-term value.

²³ The authors, Zilio Grandi G., Biasi M., in “*Contratto di rete e diritto del lavoro*”, Cedam, 2014, page 9, identify the four above-mentioned elements as those necessary to consider an aggregation of enterprises as a “network”. In particular, such elements arise from the analysis of the network definitions above provided.



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The four elements listed above are the four fundamentals necessary to create a network of companies from the practical point of view. There are also many other formal elements, which we will consider while analyzing the juridical perspective of the network phenomenon. However, as we have to deal with a complex phenomenon, there is a need to make some considerations, before we move forward in our analysis.

First, it is important to rethink the idea of “autonomy” in the second point. On one hand, it must be substantial and juridical, so characterized by the absence of “ownership ties” because they would compromise the fundamental assumptions of existence of a network from the juridical point of view²⁴. In a contrary case, it will be more similar to a group of companies, where there is a unique owner or a unique direction board with the function of control and coordination of such a group. Another consideration is that networks characterized by the asymmetry of decision power between their companies-members do exist. In the matter of fact, there is a distinction between different types of networks from this point of view. The general idea is that some types of networks permit a unique “guide” for the whole aggregation, but it will not damage the autonomy of the companies (Bastia, 1989). In relation to this issue, “central” and “equal” networks exist (Ricciardi, 2003). In particular, “central” networks are characterized by the presence of a “leader” enterprise, with the task to coordinate the most relevant activities, while the other members can either follow its directions or respond to its actions. The second type of network is a more symmetric one, or “equal” network, where every firm has the same or similar weight in the decision process. Usually, in “central” networks, the “leader” firm is the one with the strongest leadership attitude or the firm possessing more developed core capabilities, necessary to achieve the aggregation’s strategical objectives. In this case, all the other firms will follow the directions of the “leader” enterprise or the so-called “guide” company, by

²⁴According to Soda G., “Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese, Carocci Editore, Roma, 1998, the presence of the formally autonomous companies is one of the prerequisites of the network establishment. Otherwise, the criterion of autonomy is not respected.



contributing with their complementary capabilities to the overall process. On the contrary, in case of “equal” networks, in general, all the members equally contribute to the operational and governance processes, and each member has a diverse core competence, necessary to realize the mutual interests of the companies within a network.

From the governance point of view, the main distinction between networks of companies remains that between “leaders” and “equal” networks. Such distinction underlines the existence of “leader” companies deciding to put in act a “strategical project”²⁵ and search for a potential pool of partners. Such partners will be represented by organizations deciding to follow the projects of the “leader” enterprise, because some of their purposes coincide, so that they decide to catch the opportunity to pursue some of their strategical aims. However, also other perspectives on the network distinction exist. In particular, such distinctions are based on different elements, rather than the distribution of decision power within the aggregation. However, they do not represent completely different categories, but rather the sub branches of the “leader” and “equal” network categories.

The Unicredit bank has illustrated an interesting point of view²⁶ on the argument in matter, during one of its conferences about the Networks of enterprises. In particular, it has offered a perspective based on the division of networks in following categories: networks “*whose contracts have same or similar purposes, intended as final objectives*”, and those who have “*same objectives intended as the means to reach their strategical projects*”. With reference to the first category, Unicredit underlines “by choosing a network form of aggregation, a plurality of entrepreneurs pursue the objective of increasing, individually or jointly, the proper innovation capability and their competitiveness in the market”. While, with

²⁵ The importance of the strategical objectives presence is emphasized in Cardoni A., Tiacchi L., Saetta S., “*Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations*”, Università degli studi di Perugia, 2012.

²⁶ This distinction refers to the discourse of the bank Unicredit, taken during the conference entitled “Reti di Imprese: posizionamento e distintività di Unicredit”, Milano, (03/2013).



reference to the second, it states that: “in order to reach such objectives, contained in the common program of the networks of companies, the participants commit to collaborate in forms and environments compliant with the exercise of proper economical activities”.²⁷ In particular, enterprises commit to exchange information or performance of industrial, commercial, technical or technological nature and to perform jointly some of the activities related to the achievement of their common activities. Considered such reasoning, Unicredit offers an interesting perspective on the different types of network forms of aggregation by dividing them into three further categories. These categories share same or similar final objectives, but each of them implements a different means to reach them. In particular, at the basis of the distinction between them, we can find different intensity of their cooperation and different levels of interdependence between the participants. The three categories are identified as the following:

- The “*networks of knowledge*”: in this category, the means used by the members of the networks, to achieve their strategical objectives, is represented by the exchange of strategical knowledge and know-how of each company, beneficial for all the parts involved in terms of their competitiveness enhancement.
- The “*networks of performance*”: in this way companies can share their strategical tangible resources and capabilities related, in order to enhance the quality of their products and production processes. Consequently, this will permit companies to become more efficient and more innovative, in order to become more competitive.
- The “*cooperative networks*”: when network members do not simply share tangible and intangible capabilities, but they organize a common production process (or a part of it) in order to put together their strategical capabilities. In this way, all the participants will have the possibility to

²⁷ The two distinctions find their origin mainly in the Italian civil code, Law 122/2010, art. 42, c. 2-bis.



increase their contractual power and to enhance their products by increasing their quality.

As evident, such distinction provides a wider perspective on the strategical instruments utilized by the networks of enterprises. Such point of view has furtherly confirmed that “business objectives” are a crucial element for the network evaluation, which will be more deeply discussed in the paragraph 1.6 of our analysis.

3. From districts to networks

To analyse more deeply the main factors of the network phenomenon development, another important factor has to be taken into consideration. It is inevitable to consider the interconnection between networks and districts. In order to illustrate the relationship between the two phenomena, it is important to consider the most crucial elements of the Italian industrial districts development. In Italy, districts, or "clusters", were born in the period comprised between the years 1945 and 1970, on the basis of a voluntary aggregation of companies, situated in the same location and producing the same/or similar goods. The first official definition of the industrial district²⁸ dates back to A. Marshall (1922), who defines it as “*the concentration of specialised industries in particular localities*”. During the years, many other scholars have studied the district phenomenon, from the “Italian” perspective. In the matter of fact, a definition more compliant with the Italian context²⁹, has been provided by Becattini G. (1990), and his scholars, who define it as “*a socio-territorial entity which is characterised by the active*

²⁸ Marshall A., “Principles of Economics”, 1922 in Alberti F., “*The Governance of Italian industrial districts: a theoretical footing proposal*”, Liuc Papers N.82, Serie Piccola e Media Impresa 5, gennaio 2001, page 1.

²⁹ The definition of industrial district of Becattini G. in F.Alberti, “*The Governance of Italian industrial districts: a theoretical footing proposal*”, Liuc Papers N.82, Serie Piccola e Media Impresa 5, gennaio 2001, pages 1-2.



presence of both a community of people and a population of firms in one naturally and historically bounded area". In fact, there is some difference between the American and Italian industrial districts. However, authors like Alberti F. (2001) argue how this topic presents many shades, so that it has been studied both from general perspective, and from specific ones. However, a deeper analysis on the mentioned perspectives will not be provided in this context.

Initially, the desire of cooperation derived from the internal needs of these companies; some of them experienced the lack of resources or specific competencies in order to be competitive in an area where many similar enterprises existed, so it represented to them the possibility to survive. However, with time, industrial districts became areas of a more complex type of collaboration, where not only tangible, but also important intangible resources were shared between the enterprises. In that period, globalization was not present as it is nowadays. Therefore, the creation of industrial districts was not originated by the necessity to compete against foreign companies or to enhance the innovation level of the companies' members. More often, districts were originated by particular social or historical processes³⁰, which that particular area experienced. In fact, in some cases, the creation of a particular industry in a particular area was random, as areas that are more advisable exist. However, for this phenomenon, the role of social and historical elements sometimes over performed that of the more important economic factors.

By basing on the definitions above-mentioned, industrial districts model presented several advantages for the enterprises involved, which can be summarized in three following categories:

- A high quantity of knowledge and "know-how" shared between the local communities.
- A high level of competition between leading to the efficiency of the market.

³⁰According to Becattini G., "*Distretti industriali e made in Italy*", Bollati Boringhieri, Torino, 1998, the creation of the industrial districts is often the result of particular historical or social process.



- A high number of SMEs, collaborating without losing their juridical autonomy.

However, with the introduction of global competition, these advantages have lost a part of their importance. The major one, represented by the physical proximity between enterprises, became almost irrelevant with introduction of more advanced technology. In addition, authors like Carter P. (1994) argue that districts have lost part of their competitive advantage, because of globalization and knowledge economy arise³¹. Moreover, global companies could collocate parts of their production processes in the areas characterized by lower taxes and/or less expensive labour power, while industrial districts remained tied to their territory and could not benefit from these advantages. Summarizing, the new global companies can be considered superior to small/medium Italian enterprises mainly because of the following three advantages:

- Big dimension (with all the consequences it involved).
- Lower taxes (or even absence of taxes in some cases).
- Cheaper raw materials (due to the global competition between suppliers).

Due to the reasons above enlisted, the system of districts became inadequate to compete with the new global enterprises. Some authors (Marelli, Brunetti, Visconti, et al. 1999), who have studied the phenomenon in order to propose solutions in order to overcome the crisis situation many Italian districts were experiencing, have evidenced how one of the reasons of it is also represented by a gap between “highly localized manufacturing competencies” and a “weak ability of strategic thinking”³². This issue was even more evident in case of small and medium enterprises. In the matter of fact, the situation even worsen in 2008, with the crisis of the Italian SMEs, particularly serious in some industrial sectors. The

³¹ Carter P. (1990) in F. Alberti, “*The Governance of Italian industrial districts: a theoretical footing proposal*”, Liuc Papers N.82, Serie Piccola e Media Impresa 5, gennaio 2001, page 3.

³² Elaboration of Alberti F., “*The Governance of Italian industrial districts: a theoretical footing proposal*”, Liuc Papers N.82, Serie Piccola e Media Impresa 5, 2001, page 2.



necessity to introduce new policies became evident, in order to solve this particularly difficult situation.

An important institution in charge for the observation of the Italian districts performance is the “*National Observatory of the Italian districts*”. Not only it observes and coordinates important processes related to the district phenomenon, but it also registers annual reports summarizing the data about the national districts performance. This helps the government to better understand the major strong and weakness points related to this phenomenon, in order to put in act policies compliant with them. From the report dated 2010³³, many relevant observations arise. Firstly, the institution recognizes the fundamental contribution of both districts and network to the Italian economy. It does not consider them as two completely separate systems, but as two important elements of the unique system, which have to be managed in two different ways. In particular, in order to enhance the performance of the industrial districts, the entrepreneurial activities connected to a particular territorial areas have to be strengthened, while to favour the networks, important policies compliant with the enhancement of single enterprises performance (such as incentives, tax decrease, subsidies, etc.) have to be introduced. The “Centre of Study and Research of Sanpaolo” realized an important study, contained in this report. Based on the statistical data of almost one thousand enterprises, it helps to understand the most performing sectors of the Italian industrial districts, and the weakest ones. From this analysis, an evident decrease of the number of enterprises (-2.5%) and the number of employees (-3.8%) during the period 2004-2006 arises. Also the results of important financial indicators such as ROE (Return on Equity) and ROI (Return on Investment) show

³³ In its annual study entitled “Rapporti sullo sviluppo dei distretti italiani”, dated to 2010, page 10, the National Observatory on Italian Districts, illustrates the most important points of connection between the district and network phenomenon. The aim of this report is to recognize the contribution of both aggregation models to the development of the Italian economy, and to put in evidence the role of the small and medium enterprises issue in this situation.



negative results³⁴. While the situation remains steady in some sectors, other industries exist, especially fashion and furniture ones, who have experienced a remarkable deterioration of their performance. The study analyses the most important causes of industrial districts crisis and discusses about the potential strategies in order to improve the situation. However, the most emergent point remains that industrial districts phenomenon, without the introduction of adequate policies, will no longer remain competitive in the global world of economy.

With relationship to the issue of the industrial districts crisis, some alternative models exist. Between these, the model of networks of companies occupies a remarkable place, but the opinions of scholars in this matter divides in two directions. Such division consist in the fact that some state that the two phenomenon can perfectly coexist; while the second claim that networks can be considered as an evolution of the district phenomenon. To provide the reasoning behind these two opinions, the analysis of the affinities and differences between the two phenomena will be useful. In particular, some similarities between the two phenomena are present, as the two models present some common characteristics, such as costs' savings and knowledge sharing. However, an important distinction separates them: in case of industrial districts, physical proximity of its members is a necessary condition, while in case of networks, the participants can be located in different parts of the country, or even in different countries. In fact, the biggest prerogative of a district is the fact that, due to their vicinity in position, firms can share resources, knowledge, expertise and labor based on their specific needs. Under such conditions, these firms can share the unique knowledge³⁵ based on traditions and competencies of that particular area

³⁴ The study underlines that the overall decrease of these two indicators is not caused only by the overall situation, but is also related to the introduction of the Law 185/2008, which introduces the possibility of revaluation of some assets, which has caused an evident of the invested capital and of the net assets, denominators of ROI and ROE. "*Rapporti sullo sviluppo dei distretti italiani*", Osservatorio Nazionale dei Distretti Italiani, 2010, page. 100.

³⁵ Corò G., Rullani E., in "Percorsi locali di internazionalizzazione", Franco Angeli, Milano, 1998, pages 15-16 emphasize how the uniqueness of the above-mentioned resources relates to the fact that they are created in areas, characterized by particular social and historical events.



and share specific resources related to the industry in which the district is specialized. Similar advantages are valid also in case of networks, with the exception that physical affinity between the companies is not mandatory. Being network a more advanced form of cooperation, compared to industrial districts, it permits companies to share their knowledge, competencies and expertise without positioning closed one to the other, mainly by employing technology.

The empirical studies on the interconnection of the district and network phenomena prove that there is a correlation between the two models. Authors, such as Ricciardi³⁶ have conducted many studies on the interconnection between the two models. During one of his studies, realized through analyzing more than 100 districts in Italy, he has discovered that a big part of networks was created within the industrial districts. Moreover, by analyzing each particular case, he has proved that usually networks born inside an industrial districts, showed a higher performance.

Evidence shows that, nowadays, there is always more and more a tendency of companies inside industrial districts to organize themselves in networks to enhance the quality of their products and to reduce the environmental impacts and to decrease the energy costs. In particular, statistical data show that the success of networks inside industrial districts depends mainly on these three conditions:

- If the governance of the production process within industrial districts belongs to a network of companies, and is guided by efficient leader companies, there is a large probability to have a higher performance and higher profits.
- In a contrary situation, where there are no evident forms of organization between companies, the performance will be lower and consequently the profits.

³⁶ Ricciardi A., illustrates the most important point of interconnection between district and network phenomena, in his paper "*Le reti di imprese: aspetti gestionali, normativi, fiscali*" in *Amministrazione e Finanza*, 2013, pages 25-28.



- A negative situation will verify in case there are no evident desire of collaboration between companies, and even worse, there is a high level of competition between companies inside the district.

A diverse perspective can be extracted from the studies conducted by Cafaggi and Iamiceli³⁷. In particular, the study proves how the relationship between districts and networks is not always univocal. One hand, the majority of networks situated within industrial districts are more advanced rather than those outside them. On the other hand, the fact that a network is situated within an industrial cluster does not permit it to reach a high level of formalization of the relationships between its members. This happens mainly because the cooperation and competition within industrial districts are regulated mainly by informal agreements, and often, there is no necessity to introduce formal contracts. Consequently, companies can only partially exploit the benefits deriving from the formalization of the network relationship. However, the study also confirms that, for those networks within industrial districts whose relationships are based on formal contracts, a high of success is very probable.

The data, utilized by the professors for their research, prove that the number of networks created within industrial districts is not necessarily higher than of those outside it, but they are more intense. Moreover, the two professors (Cafaggi, Iamiceli, 2011, 2012) agree that a network model represents a more advanced model of aggregation between enterprises, as it helps to solve the issue of “territoriality”³⁸, presented by the industrial districts.

³⁷ The data about the study mentioned are provided by Cafaggi F., Iamiceli P., in “Reti di imprese tra crescita e innovazione organizzativa”, Il Mulino, 2007, pages 2-5.

³⁸ The concept of the “territoriality” refers to the above-mentioned advantages of industrial districts, deriving from territorial vicinity of the companies within clusters.



Other relevant implications of the studies on the development of networks inside industrial clusters, are that they usually reveal a higher level of ROI³⁹ (mainly as the consequence of a more successful collaboration between enterprises), and a higher level of cooperation between companies. This further proves that the cooperation under a network model within the industrial district is more intense and permits a higher level of advancement.

In summary, the networks created within industrial districts do not always prove to be highly efficient, due to the lack of formalization of the network relationship between the participants. However, in the majority of cases, they still reveal a high level of performance thanks to many important advantages.

Firstly, an informal relationship is already established and the prerogative of having more information about potential partners does not have to be taken for granted. Moreover, companies are more aware about the objectives of their cooperation and have already collaborated with other organizations (as we will see later, this will guarantee a higher level of success for further cooperation). In addition, companies will have some common objectives aimed at the enhancement of their sustainable growth.

4. Advantages of the network model

The most evident advantages of the network model emerge from the comparison between the two traditional company's structures, which are *hierarchical* and *market* structure.⁴⁰ Firstly, it is much more flexible than hierarchically structured organizations, which present some disadvantages derived from their particular structures, like long decisions' time, inflexibility, too much bureaucracy and often

³⁹ Ricciardi A., in "Le reti di imprese: aspetti gestionali, normativi, fiscali" in Amministrazione e Finanza, 2013, page 29, illustrates the advantages of the networks created within industrial districts, one of which is represented by the above-mentioned increased performance in terms Return on Investment.

⁴⁰ Grandori A., "Interfirm Networks. Organization and industrial competitiveness", 1995, Routledge, Oxon, page 6.



wastefulness of resources. On the contrary, companies organized in a network usually present a more efficient performance⁴¹. Moreover, as the competition in the globalized markets have become tougher, the situation of the Italian small-and medium enterprises becomes always more and more difficult⁴². Such companies simply disappear from the world market because of their disability to compete globally. Consequently, organizing in a network, can offer them a possibility to survive and to acquire the necessary dimension, in order to compete with larger companies, by sharing their competencies and resources strategically, without damaging juridical their autonomy.

Firstly, we consider useful to enlist the most important requirements for companies who want to be competitive in the global market (Ricciardi, 2010), and then will try to demonstrate how organizing in a network contributes to the formation of such requisites for SMEs.

The above-mentioned characteristics can be summarized as following:

- Flexibility and short time in responding to market changes and demand.
- Creation and exploitation of scale economies.
- Possibility of investment in R&D activities.
- Reinforcement of the marketing function and the use of new technologies.
- Access to innovation.
- Strategic use of resources.

Those organizations acting alone will have serious difficulties to reach such requirements. This does not mean that entering in a network will guarantee the companies the acquirement of such characteristics automatically. However, there is a high possibility for companies to acquire them because of the performance

⁴¹ According to the data provided by Ricciardi A., in *“Le reti e le aggregazioni d’impresa”*, Finanza e gestione delle imprese Lombarde degli anni ’10, Milano, 4 febbraio 2011, page 1-2, the enterprises involved in networks represent a higher level of overall performance. 2.

⁴² According to Soda G., *“Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese”*, Carocci Editore, Roma, 1998, page 28, the global competition has furtherly worsened the situation of the majority of Italian SMEs, as they are not able to deal with its requirements.



enhancement and learning processes, which the companies will experience once they enter to become a part of a network.

Considered the advantages of the network model, it is important to understand how putting more firms together helps them to not only become “bigger in size” by obtaining the characteristics of large corporations (such as those above-mentioned), but also to enhance the “quality” of their competencies⁴³. Consequently, we will divide the advantages into two main categories: the “quantitative” ones and the “qualitative” ones. The first category of advantages are acquired by the organizations “automatically”, when they decide to establish a strategic network with other enterprises. By doing so, they can share resources and competencies, and benefit from the advantages deriving from cooperation. Consequently, they will acquire tangible and intangible resources necessary to compete with large companies. This is the first and the most evident advantage of a network.

However, a second important category of advantages exists, deriving from the companies’ decision to share their resources and reach common objectives. It would be incorrect to consider quantitative advantages, without considering those qualitative, as the second are the natural consequences from the first ones. These “qualitative” advantages arise mainly due to the sharing of material and immaterial resources between the companies inside the network. It is possible to divide such resources in four main categories: knowledge, competencies, resources and expertise. By exchanging them, organizations can generate a new and a more advanced corporate culture. Network also helps to valorize and reinforce the core competences of each company, by “promoting the harmonization of each organization’s values and putting them in a unique

⁴³ According to Zilio Grandi G., Biasi M., “*Contratto di rete e diritto del lavoro*”, Cedam, 2014, pages 14-15, the inter-firms aggregation models, in particular the network model, permit the general enhancement of the characteristics of the firms involved.



system”⁴⁴. The pool of knowledge and resources created and shared by the network members will lead to the innovation enhancement and to higher levels of creativity. It will help companies to view the existing processes from a different new perspective. This will help the companies inside a network to learn faster, to innovate and to respond more efficiently to the environmental changes⁴⁵. Consequently, this learning process will lead to the enhancement of the quality of products. In addition, each organization will concentrate more on its core competencies, and this will help them to use human and material resources more efficiently. These advantages will lead to the creating of learning economies. In such environment of resources sharing and learning, also scale economies will arise. They will derive mainly from specialization of the companies inside the network and from the increasing production capacity, which will lead to the lowering of the unitary cost of production.

A fundamental element to make all this process succeed and to arrive to the conditions we have just mentioned is the desire of innovation of the network's participants. In the matter of fact, SMEs often desire innovation, but have no possibility to achieve it, because of the lack of resources. By entering in a network, they can have easier access to innovation, but it is very important for them to be "open-minded" and aware about the challenges of the new global markets (Zilio Grandi G., Biasi M., 2014). As already mentioned, one of the prerogatives of the network over other forms of aggregations, consists in helping the enterprises involved to reach the above-enlisted advantages, without undermining their formal independence, not only by maintaining their core characteristics but also by enhancing them. In this way, the overall structure will be highly developed, and, on the other hand, high flexible.

⁴⁴ The statement is the result of elaboration of Ricciardi A., “*La rete come incubatore di innovazione per le imprese agroalimentari*”, *PianetaPSR numero 26, Novembre 2013*.

⁴⁵ The statement is the elaboration of Caroli M., Tantalo C., “*Le reti di imprese come strumento privilegiato per la diffusione di una sostenibilità del sistema*”, *Luiss Business School, 2012, pages 40-42*.



Summarizing, the main advantages deriving from cooperation under a network form, are:

- The possibility to enter and compete successfully in both internal and external markets: in fact, usually small firms are able only, to work in local markets, as they do not have enough market power and resources to face the global markets.
- The capability of enlarging and diversifying the demand: the more advanced company culture and the enhancement of learning processes will lead to a better and shorter response to the environment. Companies will learn to respond to the demand faster and more efficiently, and will be able to enlarge their supply with new products.
- The possibility to share costs and risks: these learning economies and scale economies will help the companies to decrease the unitary cost of production and by sharing resources and knowledge; they will be able to divide the costs
- The enhancement of access to credit: by acquiring a larger size, a company usually acquires more power and more authority, it will be much easier to have the trust of financial markets and consequently to obtain credit.
- Fiscal and financial advantages provided by the institutional framework: specific law in this matter attribute to companies, making part of networks of enterprises, the possibility to obtain fiscal benefits (see chapter 2, par. 6.2 “Fiscal and financial advantages”). In the next chapter we will provide evidence on how one of the big advantages of organizing in a network, is represented by the possibility for companies involved to enhance their relationships with banks and other financial institutions.



5. Risks related to cooperation

By organizing in a network, companies can benefit from many advantages deriving from synergies created⁴⁶. However, it is also important to underline that a network has the possibility to develop and realize its goals only under determined conditions (Ricciardi, 2003). Therefore, making part of this aggregation model, also involves some risks. In particular:

- In case of “central networks”, enterprises can suffer from the extreme dependence from the central network, which has the role of leadership within the aggregation. For this reason, its role is fundamental for the development of the network. Should it not only perform the control and decision functions within the network, but also act as the “point of connection” between all the companies, in order to provide cooperation and support. In this way, will it be possible to achieve an efficient level of cooperation with the aggregation and to avoid contractual abuse.⁴⁷
- Another risk can derive from the potential opportunistic behaviour of some members of the network. When considering to enter in a network, companies usually do not have “efficient mechanisms of choice of their partners”, which they usually choose by using short-period evaluation criteria, usually determined by a high level of rotation of participants, and this causes instability of the network itself.⁴⁸

⁴⁶ Grandori A., “*Interfirm Networks. Organization and industrial competitiveness*”, 1995, Routledge, Oxon, pages 1-15.

⁴⁷ Ricciardi A., “*La rete come incubatore di innovazione per le imprese agroalimentari*”, *PianetaPSR* numero 26, Novembre 2013

⁴⁸ Cardoni A., Tiacci L., Saetta S., “*Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations*”, Università degli studi di Perugia, 2012.



- One of the most dangerous risks derives from the divergence of the strategical objectives of the participants. Usually organizations decide to cooperate in order to be able to pursue common goals; it is also true that these objectives can change with time and this can cause instability within the network. Authors as Butera and Alberti (2013) argue how, usually companies start their collaboration as an informal network, which than transforms into formal.⁴⁹ In this perspective, it is also important to evaluate potential partners in order to understand whether they will have the same or similar goals in the long period. Moreover, it is important to understand whether the potential partners' corporate culture and managerial style are compliant, in order to avoid divergence in the future in the managerial and organizational contexts. Summarizing, difference in organization and governance can also represent a potential risk to enterprises with an aggregation.

It is important to evaluate all the potential benefits and risks, before entering a network, and to acquire more information about the future partners in order to identify potential compatibility divergence or opportunistic attitudes.

It is considered a common practice for companies and other types of organizations, to initially establish informal relationships and only later, transform them into formal networks, based on official contracts. The main reason is that, at the beginning, organizations do not have enough information about their potential partners and a sufficient level of trust is not present yet. Also, future partners need some time to discuss their common objectives, to try to forecast and evaluate all the potential risks and advantages, in order to, at least approximately, determine whether entering in a network will help them to obtain the expected benefits. However, in the majority of cases, companies start their collaboration informally, and later, if one the companies sees the opportunity to put in act a strategical plan,

⁴⁹ According to Alberti F., Butera F., *“Il governo delle reti inter-organizzative per la competitività”*, Fondazione Irso, 2013, the majority of companies involved in networks present evidence of previous informal relationships followed by the formalization of such based on the formal agreements.



it asks for the involvement of other members⁵⁰. Furtherly, the enterprises involved bind themselves by the Network contract, in order to guarantee their commitment to this strategical plan and to be able to benefit from the fiscal and other types of advantages it offers. Evidence shows that those companies and organizations, that have already been involved in informal cooperation relationships with others, have more probability to establish successful relationships, and consequently to create successful networks.

Authors like Ricciardi (2013), distinguishes two main types of networks: informal and organized, or “planned”. Actually, he does not view them as two different phenomena, but one as the continuation of the other. The author underlines how in the organized networks, there is a major probability of success for all the members, as all the actors involved have signed the formal contract and all are interested in the strategical objectives achievement. This important factor will only strengthen the relationship based on mutual help and encouragement. While in the informal networks, members mainly seek to achieve their own goals, in the organized ones they act more as a group, so their relation changes from “*omnidirectional*” to “*reciprocal*” (Ricciardi, 2013). During the initial phase the role of the central enterprise, the so-called “leader” or “guide” enterprise, will be of fundamental importance in the creation of a successful network.

Some authors, such as Ricciardi (2003), think that the presence of a “leader” enterprise is also an important characteristic of an organized network. The existence of the “guide company” reinforces the relationship of mutual trust, because it creates the awareness of the company “leader”, that to achieve success all the members have to grow, so it will have to implement support strategies for the weaker members. On the other hand, there will be a general awareness of all the other members, that they need to give their contribute to the network’s growth. However, also different perspectives on the role of “leader” enterprise exist.

⁵⁰ According to Ricciardi A., in “Per vincere l’impresa farà rete”, Economy, 2013, pages 47-48, a network establishment is often the result of the “triggering” entity definition of a strategical plan followed by the identification of the appropriate strategical partners.



Authors, such as Wilkinson (2001), argue how the existing studies concentrate too much of the more powerful actors, and “there is far less treatment of the less powerful actor and how they should respond to the actions of a powerful actor”⁵¹. Consequently, strategical managerial instruments should be provided for both type of actors, and the weaker ones do not have to be taken for granted, as their contribution to the network development is also very important.

In this way, both parts, the “leader” enterprise and all the other partners, will be incentivized to perform more efficiently, and this will enhance the network’s overall performance (Ricciardi, 2013).

6. Strategies to evaluate a potential pool of partners

Organizing in a network of companies can represent an optimal solution to the issues of many modern businesses. In case of central networks, the leader company decides to establish a network of companies and selects its strategical partners mainly by basing its decisions on their strategical competencies and their investment capabilities. By doing so, it solves both the problems of investment finding, and, on the other hand, in the production process each company performs the activity representing its core competence. This type of aggregation presents important advantages such as risks sharing and a “*faster and more efficient application of the innovative technology*”.⁵²

One of the serious risks the companies incur in, when entering in a network, consists in the fact that they do not have precise and efficient criteria to evaluate their potential partners. Anyway, the fact that companies remain in informal relationship during the initial period, gives them some time to acquire more

⁵¹ Wilkinson I., “*A History of Network and Channels Thinking in Marketing in the 20th century*”, School of Marketing, University of New South Wales, Sydney, Australia, page 50.

⁵² According to Ricciardi A., in “*Per vincere l’impresa farà rete*”, Economy, 2013, pages 47-48, the presence of a highly elaborated strategical plan in case of a “central” network contributes to advantages in terms of innovation achievement.



information about their future partners and evaluate the most probable outcomes of their cooperation. However, there are some elements to consider more carefully when choosing partners for the creation of a network. These elements can be divided in two main categories:

1. The category of Economic and financial conditions, which contains all the most relevant evaluation criteria to provide companies to have more precise indications about the economic and financial performance of their potential partners, such those indicating firms' stability and development performance.
2. Technical and production characteristics, the category that contains the most important indicators to help companies to understand whether their partners have the necessary capabilities to guarantee the achievement of the strategical goals of the network. They include indicators such as the product quality guarantee and the innovation level indicator.

A further relevant criterion is the uniqueness of each company characteristics and its core competencies, such that each of them can bring their unparalleled contribution to the strategical plan of the network and, at the same time, exploit the possibility to better develop its unique capability. In this way, the operational processes will be enhanced, as each actor within the network will perform the activity constituting its core competence. Moreover, the companies-members will cover all the fundamental roles within the network, so there will be no lack of particular function performers.

Beyond the framework above presented, many other studies on the evaluation criteria for a potential pool of partners exist in the economic literature. For example, the author Cardoni and Tiacci (2012), provide a framework on the importance of precise strategic plan at the basis of the network establishment. Due to the authors, the presence of "strategic objectives" is a fundamental prerequisite for a successful and long-lasting aggregation establishment. In particular, such objectives must not be defined before the potential collaboration, but should be thought as the "potential business opportunities", which could arise as the



consequence of such a collaboration. Only by taking into consideration such fundamental elements, will firms efficiently identify and choose their potential partners to aggregation under a Collaborative Networked Organization⁵³. Due to the authors (Cardoni, Tiacci, 2012), three types of objectives may be identified, which are the following:

- Business opportunities, classified as “primary” strategical objectives.
- Core process opportunities.
- Supporting process opportunities.

Once the type of objectives has been identified, a further action to implement is the evaluation of potential partners, achieved as the result of evaluation of the following criteria:

- “Segments of Business” and the “capability to create opportunities of business”.
- “Primary and Supporting Activities”, such as firms’ capability to create and perform activities inherent to primary and support strategical actions.
- “Critical Resources”, necessary to achieve the pre-established strategical goals.
- Financial statements analysis, general financial and economic indicators.

The authors of the framework (Cardoni, Tiacci, 2012) underline how the combination of the two steps above mentioned will help to prepare a basis for a successful network’s development. As the actors compounding the aggregation represent one of the crucial variable, it will be extremely important to choose the most appropriate ones, by basing on the above provided instructions. Authors also underline how the presence of business opportunities will play the determinant role in the network establishment, as it will affect both many of its critical aspects.

⁵³ Cardoni A., Tiacci L., in “*A Genetic Algorithm Approach For Collaborative Networked Organization Partners Selection*”, (Università degli studi di Perugia, 2012), provide the definition of Collaborative Networked Organization as an aggregation of different and autonomous entities, usually geographically dispersed, deciding to collaborate together to better achieve their business goals.



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Venezia

7. Phases of network development

To enlarge our perspective on how the network form of aggregation emerged in the world of Italian economy, analyzing its main elements and historical patterns may not be enough. It would also be useful to have an overall view on the process enterprises go through, when they enter to make part of networks.

We have already mentioned the distinction of networks in two main categories, which are “central” and “equal” networks, and have enlisted some factors that determine the stability of it. Now, it would be also useful for our analysis to add some criteria that would help us to understand whether a network is efficient and one of the first elements we will analyze to do so, is to understand in which development stage in the network situated.

Explaining the networks life cycle, as other mechanisms of the small-firms networks is not a very easy task, mainly because this phenomenon presents many gaps in the issues of the management and governance mechanisms and its development. It may not be difficult to understand why companies organize in networks, as there are quite many advantages for them to do so. However, when it comes to explain how a network functions and how it grows in time, things become much more difficult. In addition, one of the greatest issues connected to the difficulty of determining the level of network's development, consists in the fact that many different forms of cooperation between companies exist, and many scholars have based their studies on the cases similar to the networks (Grandori, 1995, Soda, 1998, et *al.*). However, the main difference between networks and other types of organization consists in the fact that usually the second have as the objective to reach one or more common aims of the participants, after which a dissolution follows. On the contrary, in case of networks no time limits are present (we will analyze more deeply the differences with the other forms of cooperation in the next chapter).



The economic and management literature presents many important studies about the networks life cycle. As the result, many diverse models have been proposed to illustrate the process of the network development. It is not the main task of our thesis to analyze all these models, but still it is necessary to provide a short summary of the most important ones, in order to understand its mechanisms, and to provide some indications of how to manage issues arising at different stages.

Large part of the network lifecycle models can be connected to the theory of “biological life cycle”. This means that the companies within a network will follow a transformation process from the “individual level” (the companies) to the “common ground level” (the network), in order to reach their common goals. In this case, the organization created will be a completely new one and the process will be an “evolutionary-dynamic” one or a “biological cycle process adjusted to the business world”.

In addition, it is important to mention that some models, similar to the ones we have just mentioned, view a network as a creation of a new organization without any time limits, while the others perceive it as a temporary phenomenon that stops to exist when companies reach their goals.

A more traditional model (Ricciardi, 2011) states that a network life cycle presents four stages⁵⁴:

1. The “formation” phase.
2. The “development” or “expansion” phase.
3. The “maturity” or “consolidation” phase.
4. The “decline” phase.

As in all economical processes, there are some activities to implement in order to support each stage of the organization’s lifecycle, to support its sustainable and efficient development (A. Ricciardi). In particular, during the first stage, when organizations have just established, the network is being in its “formation” phase,

⁵⁴ The model on the network development is presented in Ricciardi A., “*Le reti e le aggregazioni d’impresa*”, Finanza e gestione delle imprese Lombarde degli anni ’10, Milano, 4 febbraio 2011.



it is very important to pay attention on the incubation of the network itself and on the preparation of a context favorable for the formation of stable relationships between all its members. This context should also favor and support all the different types of connections and exchanges between the companies. In this stage, it is very important to prepare a favorable ground for the network to succeed and organize a context in which all the participants would be able to relate to each other easily⁵⁵. Once this context has been created, and the network starts to perform its activities, it enters into the second phase, the so-called "development or expansion phase". Here, it is important to implement all the strategical actions in order to guarantee its expansion, the achievement of which is possible through supporting all the activities aimed at the aggregation's development, such as resources' provision and services' supply, necessary to guarantee for its functioning. Then, in the "maturity" stage, when the relations between the companies are already consolidated and stable, as all the governance processes and mechanisms, it will not be necessary to implement any type of particular strategies, but the support activities.

During the last phase, when the network has reached its objectives and there is no particular reason for it to continue to exist, companies can decide to work autonomously, as they did before the entering to be a part of it. However, it can also happen that they can rethink their strategical objectives and decide for a further collaboration. In any case, it is of crucial importance to preserve all the financial and human capital that the network has created during the period of its existence and to consider all the consequences that its decline would originate in the context of its performance (Soda, 1998).

Other models⁵⁶ consider network as a more short-term phenomenon (Dwyer, Schurr, Oh). Due to these models, almost no possibility to create a solid long-term

⁵⁵According to Soda G., *"Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese"*, Carocci Editore, Roma, 1998.

⁵⁶The Dwyer, Schurr and Oh Model (1987), offers a perspective on the development of the "buyer-seller" relationship. This model mainly concentrates on the importance of the individual relationships. This



relationship under the network cooperation exist, as it dissolves once the participants have reached their objectives. In this case, there is no specific model to explain the network creation, so to fill in these gaps; authors have created a model based on five stages. In such model, the first phase is represented by the “awareness” stage, referring to the “recognition of possible partnerships”. This means that in this first stage, a group of actors involved becomes aware of the business opportunities presence. Such phase is then followed by the “exploration” phase, where each of the potential partners attempt to analyze all the potential advantages and risks related to cooperation. Such phase can also be defined as the phase “of the increasing interdependence”. After, the “commitment” phase follows, in which the aggregation’s partners have already reached a high level of satisfaction related to their cooperation, and a large set of resources, are available within the aggregation. However, despite such successful cooperation, the authors (Dwyer, Schurr, Oh, 1987) argue how the final stage is represented by “dissolution”, occurring mainly because one of the partners “becomes unsatisfied with the cooperation” and “believes the ongoing costs are higher than the benefits”. It is important to underline that in many types of cooperation, there is a big effort on the first stages, which are the most crucial ones, in order to arrive to the consolidation or the maturity phase. It is the one of the prerequisites to create a context to make the network persist in time (Ricciardi, 2003).

8. The role of motivation and trust

We have mentioned only the two main categories of models, the more traditional ones and those considering network as a short-term model of cooperation. It is not fundamental for our analysis to mention all of them, but it will be much more

relationship is based on the above-mentioned five development stages. Due to such model, once the aims of the cooperation are achieved, it usually stops to exist. Even though this model analyzes the collaboration ties between buyers and suppliers, it can be also adapted to the network matter, as it also comprises cooperation on different stages of the supply chain. Dwyer F.R., Schurr P.H., Oh S., “*Developing Buyer-seller relationships*”, *Journal of Marketing*, American Marketing Association, Vol. 51, No. 2, 1987, pages 10-27.



useful to understand the elements, which play a crucial role in the network development. Moreover, not all the authors of theoretical analysis about networks were worried about dividing the life cycle of a network in stages, and many of them have used different perspectives. In addition, almost none of them have based their models on empirical cases. However, as a conclusion to our short analysis we can say that from the major part of their work, some common elements to the different models of the network lifecycle are evident. For example, a large part state: "there are some elements fundamental for the cooperation, like individual motivation of single members and the importance each member places on interpersonal relationships"⁵⁷. However, another crucial element should be included in this discussion. Beyond motivation and personal interconnections within aggregations, authors, such as Bachman, underline how trust also plays a fundamental role for cooperation⁵⁸. Such element performs the role of the "complement for formal governance", considered as "relational governance". Trust stimulates information exchange and incentivizes network members to share knowledge, not available for those outside the circle of trust.

With reference to the above-mentioned "awareness" stage of the model we have analyzed, trust can be present in three different ways. In particular, the "goodwill" or "benevolence" trust relates to the desire of companies to cooperate, initially on the informal level. Usually, it derives from the similarities between their activities and/or attitudes. The second type of trust, which relates to a more advanced type of relationship, can be defined as "contractual" or "integrity" trust, as it is generally based on formal agreements achieved with the establishment of a high level of honesty within the group of partners. The third and the last level of trust is

⁵⁷ Cardoni A., "Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises' network "agreement", *Management Control* 3 – special issue, 2012.

⁵⁸ According to Bachmann R., Zaheer A., "Handbook on Trust Research", Edward Elgar Publishing Limited, UK, 2006, the development of the trust relationship in the inter-firms organization is one of the crucial elements of its development.



represented by “the competency” or “ability” trust, when partners share important activities such as performance, expertise and communication.

The three categories of trust above-mentioned, do not actually represent three separate types of it, but rather are interconnected and together represent the “total trust” level, necessary to move to a further stage of cooperation development within an aggregation⁵⁹. It is useful for those companies who consider engaging in cooperation with other companies, to be aware of such three different types of trust. These and other elements are fundamental for the creation of a stable relationship between the companies inside the network in order to reach the consolidation phase and to achieve the networks objectives.

Having provided a short framework on the network form of aggregation between enterprises and its main elements, comprising some considerations about the utilization of such in attempt to decrease the existing problem related to the Italian dimensional composition, other relevant considerations arise. One of these is related to the fact that many relevant elements of the external environment highly influence local inter-firms organizations, and such cannot be considered separately from these elements. In particular, the role of the institutional framework, provided in order to support such inter-firms aggregation models, are extremely relevant in order to have a complete perspective on how such forms can be utilized by the local enterprises. For this reason, the second chapter will include the analysis of the most important elements compounding the European and the Italian institutional frameworks, in order to understand how SMEs are supported and which advantages the government provides in order to support inter-organization cooperation. Moreover, the elements included in this first chapter, will be analyzed also in the institutional perspective. Finally, some considerations about the empirical application will be provided, in order to see whether the inter-firms cooperation is still an informal process, or whether firms

⁵⁹ The role of trust in the inter-firms organizations is emphasized in Bachmann R., Zaheer A., “Handbook on Trust Research”, Edward Elgar Publishing Limited, UK, 2006. The authors also provide a model on the three-level trust composition, which is important in order to understand the trust evolution within inter-firms networks.



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decide to utilize formal models provided by the government, in order to benefit from the advantages provided.



CHAPTER 2

1. Introduction

The importance of inter-firms cooperation has been studied by many authors (Grandori, 1995, et. al), as it may lead to creation of tangible and intangible resources deriving in order to establish an inimitable aggregation of organizations⁶⁰. However, other elements have to be taken into consideration so that to have a complete perspective on the issue. In particular, beyond all the potential advantages of inter-firms networks, the influence of the institutions in case of the studied country, has not to be taken for granted. In the matter of fact, many scholars, such as Philips (2000) and others, agree on the fact that often the inter-organizational agreements have to be established in compliance with the rules provided by the institutions in charge⁶¹. For this reason, the aggregations of enterprises, such as networks, cannot be considered separately from the institutional context of the countries they are situated in, being such crucial to have a complete perspective of them⁶². In particular, the differences in the institutional environments may highly influence the discipline related to the aggregation agreements discipline, as they are interrelated.

For the above described reasons, and having provided already some general characteristics of the network discipline in the previous chapter, it is important

⁶⁰ The advantages deriving from cooperation between enterprises were by Soda G., in *"Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese"*, Carocci Editore, Roma, 1998, and many others.

⁶¹ Provan K.G., Human S.H. in Grandori A., *"Interfirm Networks. Organization and industrial competitiveness"*, Routledge, Oxon, 1995, page 185.

⁶² Authors, such as Parkhe, Greenwood and others, have argued how the operational functioning of the collaboration forms between companies is often determined because of the rules and duties supplied by the institutional organizations in charge. For this reason, in absence of a carefully elaborated discipline and may be biased or too much influenced by these limits, and, therefore, this may lead to the inefficiencies of the network functioning Parkhe A., *"Institutional environments, institutional change and International alliances"*, Journal of International Management 9, 2003, pages 300-315.



now to analyse the existing institutional framework related to it and to identify the major connections with the network discipline. Moreover, since Italy is a part of the European Union, it is important to analyse firstly the institutional framework of the EU, in order to understand the characteristics of the network discipline structure at the European level.

The chapter 2 is divided in different sections in order to achieve the pre-established objectives. The first section explains the network discipline and its development at EU level, while the second one is aimed to understand the dynamics of the Italian institutional level. Objective of the rest of the chapter is to explain the effects of the institutional pillars on the operational functioning of the networks, the progresses and the critical points identified, the considerations about the empirical application.

Considerations about the potential enhancement of the discipline will be introduced basing on the information obtained from the study cases analysis, which will be illustrated in the third and the last chapter.

2. The EU Small Business act and the fundamental principles of “Think small first”

It is of relevant importance to consider that small and medium enterprises represent not only the majority of the Italian companies, but also the largest part of the European Union economy, as they constitute almost 99 percent of it.⁶³ Consequently, the issues of SMEs do not only refer to Italy, but to the whole European Union. “As the EU has realized that these companies are the engine of its development”⁶⁴ and has pinpointed all the issues referred to this argument,

⁶³ According to the EU Annual Report on SMEs, 2009, EIM Business and Policy Research, the European economy is constituted by 99% of small and medium-sized enterprises, and have contributed to more to a large part of a positive performance related to the employment conditions enhancement. For more information, see www.eur-lex.europa.eu.

⁶⁴ Ferrari C., “*Brief Comments on the Italian Law 9 April 2009, n. 33, art. 3, co. 4-ter*”, 9th of April 2009, page 2.



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important juridical interventions in this matter have followed. This process started more than ten years ago and since that period, the problem of SMEs has been the objective of many law interventions on the European level. As the governmental policies play the fundamental role in the development of inter-firm aggregations (Freschi, Malerba, et al., 2005), the real revolution in this matter took place with the introduction of the Small Business Act. Not only it represented one of the most significant policies in the matter of small and mediums enterprises, but also one of the most specific (Iamiceli, 2010). The main difference between this and precedent policies consists in the fact that: while the already existing policies are more general, the SBA provides a series of concrete guidelines to put into practice in order to save the important European industries experiencing the situation of crisis. The introduction of such a policy on the European level has signed a series of further important interventions in the matter of SMEs, and, gradually, these were followed by the adjustments of them on a single country level. Due to Small Business act, all the European and national policies have to be compliant with the principle of *“Think small first”*.⁶⁵ This phrase summarizes in three words the main idea of this important policy, which consists in inviting countries to realize the real importance of the argument of small and medium enterprises. It encourages them to make all the future policies compliant with this issue, in order to facilitate and support the development of SMEs, which will consequently permit the development of their economy as whole. In particular, the act was introduced with the following communication:

“The Small Business Act was introduced on the 25th of June 2008 by the European Union Commission with the Communication entitled “A preferential

⁶⁵ The “Think Small First” statement officially defines the European strategy with relationship to small and medium-sized companies’ development, as its main objective. From www.eur-lex.europa.eu.



*lane for the small enterprise. Research for a new context favourable for the development of small enterprises, a Small Business Act for Europe”.*⁶⁶

The SBA was introduced mainly with the objective to create a favourable context for the creation and advancement of small and medium enterprises, by removing the obstacles to their development. This context would permit them to better exploit their resources and benefit from all the potential advantages present in the external environment. Due to this act, this process would be supported with the introduction of a set of guidelines necessary for the development of the “entrepreneurial culture” inside and between the companies of the EU countries-members. In addition, the Small Business Act aims to help the EU-members to reinforce their competitiveness and to support their transition into the “knowledge economy”. Due to this act, the European Union itself, as all the countries members, have to contribute to the creation of an economic and social context, which would permit a sustainable growth of the competitiveness and innovation of the European SMEs⁶⁷. First, countries must not take for granted the importance of small and medium-sized enterprises and they should take into consideration the potential of the employment growth of these companies. The first action to implement consists in creating and developing an environment favourable for the advancement of the entrepreneurship intended as “*an individual’s ability to turn ideas into action. It includes creativity, innovation, risk taking, ability to plan and manage projects in order to achieve objectives*”.⁶⁸ Statistical data show that

⁶⁶ The statement above refers to the Communication of the EU Commission, the COM (2008)/394, which was not published in the Italian “Gazzetta Ufficiale”, which has signed the official introduction of Small Business Act.

⁶⁷ The plan of promoting the entrepreneurship for SMEs compliant with the Small Business Act illustrates the actions necessary to create a context favourable for its development. From www.eur-lex.europa.eu, section related to the Small Business Act for European SMEs, 08.11.2003.

⁶⁸ The definition of the “entrepreneurial environment” necessary to support the development of SMEs according to in www.eur-lex.europa.eu, section related to the Small Business Act for European SMEs, 08.11.2003.



Europeans are more reluctant to start entrepreneurial career paths mainly due to some problems and risks these involve, such as:

- Lack of the educational background for people who intend to become entrepreneurs.
- The difficulty to obtain financial resources to create and support proper entrepreneurial activities.
- Fear of risks and punitive sanctions in case of non-success.
- Long and complicated administrative processes.
- Efforts in transferring entrepreneurial activities.

These issues represent one of the reasons why the European government decided to introduce some policies in order to diffuse and reinforce the entrepreneurial culture (Ricciardi *et al.*). The European Union has analysed the most important causes of the lack of entrepreneurship within its countries and has aimed to introduce some important actions in this matter, such as the Small Business Act. To support countries in establishing a basis for the achievement of the objectives established by SBA, important guidelines were invented. These guidelines can be summarized in ten fundamental principles, composed with the aim to provide the EU-members with a frame to follow in this complexed process. They are the following:⁶⁹

1. Create a context favourable for the development of entrepreneurs and family enterprises development, which would be satisfying for the “spirit of the entrepreneurship”.
2. Provide the possibility of the second opportunity for those honest entrepreneurs who have experienced insolvency.
3. Formulate rules in compliance with the principle of “Think small first”.

⁶⁹ The above-mentioned principles are a fundamental part of the SBA to offer the European SMEs the guidelines in order to support them in pursuing the goals established by the act. The above-mentioned principles are the result of elaboration of the principles available at the EUR-Lex website, section related to SBA. For more details, *see* www.eur-lex.europa.eu.



4. Make public administration offices compliant with the necessities of SMEs.
5. Adequate the public intervention with the needs of SMEs; facilitate the participation of SMEs to public tenders and better exploit the possibility of governmental intervention to support them.
6. Facilitate the access of small and medium enterprises to public and private financing. Create a context favourable for the punctuality of the commercial transactions from both economical and juridical perspectives.
7. Help SMEs to benefit from the opportunities offered by the “Unique European Market”.
8. Promote the updating of SMEs competences in order to support their attempts to increase their innovation level.
9. Permit companies to exploit their issues in opportunities. To do so, they must be offered different strategies to ameliorate their conditions.
10. Encourage and support SMEs in order to facilitate their development. Help them to exploit the market's growth and to benefit from it.

The second step to implement in the attempt to solve these issues is to put into action a number of strategies and policies, to help small and medium companies to advance and cooperate between them. EU members will need to adopt strategies in different sectors. In addition, actions to protect and support minority groups have to be undertaken.⁷⁰

⁷⁰ The Communication of SBA, states that countries- members of the EU, will have to implement all the necessary methods to favour and protect the minority groups, such as young people, women and those entrepreneurs who need a chance of a second possibility after they have experienced insolvency. Such communication refers to the measures, necessary to reach the objectives established by SBA. COM (394), 2008. For more details, see www.eur-lex.europa.eu.



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2.1. Evolution of Small Business act and further development

The necessity to innovate the law framework in the matter of small and medium enterprises derived mainly from the crisis, especially in some industries, from both economic and financial perspectives. This was the main reason why the European Union decided to introduce the SBA, and all the further law interventions aimed to attempt to solve the existing problems and prevent the future ones. The first and the most urgent actions to implement were to try to solve the issues of the difficulty of access to financial resources for companies that experienced insolvency and the complexity of the administrative procedures which characterized almost the majority of the European countries. Obviously, many other issues were present. All they represented the objective for a further step in the Small Business Act development.

From the attempt to make a short summary of the consequences of the introduction of SBA on the economy of the EU-countries, some interesting points can be extracted. The act has contributed to ameliorate the present situation and many important law interventions followed in many countries. As we are interested mainly in the Italian case, we will develop and analyse more deeply how Italy interpreted and inserted in its law system the interventions that SBA had implicated. While, considering the consequences of it in the entire European Union, some important elements are evident, such as:

1. Both the EU and the single states governments have put in act several policies in order to solve the most urgent problems; these first actions were aimed mainly to increase the possibility of financial access for SMEs. Moreover, they attempted to decrease the avoidable administrative practices to facilitate the development of these enterprises.



2. Considered that one of the fundamental objectives of SBA is to increase innovation and competitiveness levels of small and medium enterprises, both the EU Commission and member states have attempted to support and facilitate the access to innovation. In particular, their actions aimed at reinforcing the “culture of innovation”, and developing and promoting the Research and Development activities in the European area.

With reference to the first category of issues, the EU has operated to achieve quite positive results and has managed to solve some of the most urgent problems. One of the strategies it has put in act, consisted in creation of specialized financing programmes, mainly based on collaboration with financial institutions, in order to facilitate the access of SMEs to credit and loans. Very rarely, are these programmes based on direct funding of EU resources, they mainly consisted in particular agreement with institution on the national or regional levels. From the practical point of view, it has created a specialized “Finance portal”, a helpful instrument for SMEs in their research for financing. In addition, the possibility of direct funding is present, but only in case “projects that specifically contribute to the implementation of an EU programme or policy”.⁷¹

As EU has recognized that the difficulty of financial access was one of the main causes of the lack of SMEs growth, it has introduced a series of new programmes⁷², among which we can find:

- “An action plan to improve access to finance for SMEs”.
- “The 2014-2020 programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME)”.

⁷¹ The EUR-Lex website offers a section of practical information for SMEs, who need support in their research for financing. It enlists all the possibilities of private and public funding, which can be found in the section related to SBA.

⁷² The above-mentioned programs are contained in the report “*Initiatives to support micro, small and medium enterprises adopted in Italy during 2013 and 2014*”, Direzione Generale per la Politica Industriale, la Competitività e le Piccole e Medie Imprese, Faccioni, Roma, 2013, pages 3-19.



- “The 2007-2013 Competitiveness and Innovation framework Programme (CIP) financial instruments”.
- “The Horizon 2020 Framework Programme for Research and Innovation: InnovFin – EU Finance for Innovators”.

With reference to the provenience of data on which the EU has based its analysis, it declares that: “*the Commission monitors developments in SMEs’ access to finance through the joint European Commission/European Central Bank Survey on the access to finance of enterprises (SAFE) and the SME Access to Finance Index.*”⁷³

While we consider the second group of issues, those referred to the innovation and R&D activities; we can discover that EU still has some difficulties in this matter. With reference to this issue, all the parties involved still have to work on implementing all the necessary strategies to reinforce the access to innovation. One of the possibilities to achieve this goal can be represented by expanding the spirit of cooperation between enterprises, to help them to comprehend all the potential benefits that they can receive by collaboration one with another and diffuse the culture of clustering between their companies.

2.2. SBA related progress on the European level

The main aim of the Small Business Act adoption consists in strengthening and simplifying the already existing administrative, financial and economical procedures⁷⁴, and creating new ones in order to support the development of the SMEs in Europe. As “the global market is changing very quickly”⁷⁵, these

⁷³ The EUR-Lex website offers the possibility to discover from where the statistical data used as the basis for the EU-government work. All the information can be found in the section related to SBA.

⁷⁴ The above-mentioned objectives are the result of the elaboration of the report “Small Business Act. Iniziative a sostegno delle micro, piccole e medie imprese adottate in Italia nel 2013. Report 2014.”, Ministero dello Sviluppo Economico.

⁷⁵ Prahalad C.K. in Grandori A., “*Interfirm Networks. Organization and industrial competitiveness*”, 1995, Routledge, Oxon, page 91.



companies need to be sustained in their attempt to adapt and advance internationally. By analysing the report of the European Commission⁷⁶, related to the first two years after the adoption of SBA, a series of new policies and evident progress in the advancement of these objectives emerge⁷⁷. In particular, almost all the measures related to this act and compliant with the principle “Think small first” were put into practice.

Not only has the EU Commission implemented important policies for SMEs, but it has also planned an ambitious strategy for a further development, called “*Europe 2020*”, which will include policies for a further advancement related to the issues of SMEs, as also other important problems. With reference to this report, the EU has made important considerations about small and medium enterprises and has re-examined some considerations about this important argument. In particular, it has realized that not all SMEs are identical and each of them requires an appropriate strategy to implement, suitable to its necessities, and has organized its work in this direction.

The advantages realized during the period between 2009 and 2010 related to small and medium European enterprises have followed these three main purposes: guaranteeing the access to financing, exploiting efficiently the advantages offered by the Unique European Market and realizing new policies compliant with the objectives of SBA. All the measures expected were put into the act, expect the realization of guideline of the statute of the “Private European Society”⁷⁸, a task on which the EU is still working on.

⁷⁶ The EU Commission, in its report to the European Council, European Parliament, Economic and Social European Committee and Regional Committee, summarizes and comments all the measures adopted in order to pursue the objectives established by the SBA during the first two years after its adoption. This re-examination of SBA is contained in the COM 78 of 2011 (23.02.2011, Brussels).

⁷⁷ Ferrari C., “*Brief Comments on the Italian Law 9 April 2009, n. 33, art. 3, co. 4-ter*”, 9th of April 2009, page 3.

⁷⁸ With the adoption of SBA, the introduction of the Private EU Society has been proposed, in order to simplify and to promote the entrance and the functioning of small and medium enterprises in the Unique European Market.



3. The Italian Network contract as an efficient tool for small and medium enterprises...

It is nowadays common for companies to cooperate in order to reach their common goals. However, the relationships between enterprises can be of different forms. A general framework is provided by Ricciardi A., in which the author classifies such relationships by basing on the difference of their binds. In particular, the three main categories are the following:

- Formal relationships: such as commercial relationships, or those based on technical or production activities, (e.g. franchising, subcontracting, etc.).
- Contractual relationships: where firms organize to work together using collaboration contracts, mainly to enable firms to enlarge their market power (e.g. consortia, EEIG, TAC, etc.).
- Relationships based on assets: characterized by the participation of different types of companies within an aggregation, like joint ventures, holdings, etc.

Participating in network permits companies to enlarge their possibility to perform activities that they would not be able to do by acting singularly, for example accelerating the aggregation processes. From the point of view of participation, differently from industrial districts, participating in a network is not an automatic process, even in case the company has all the necessary requirements, but it requires the presence of a voluntary agreement between enterprises or a contractual relationship (Cafaggi, Iamiceli, 2012). This fact furtherly underlines the autonomy of companies in their decision to enter to make part of a network.

The Italian institutional framework offers different contractual forms of aggregation. For example, one of the forms of aggregation to compare with the network model can be presented by EEIG (*European Economic Interest Grouping*). Such form is usually implemented to facilitate and develop the economic activities of its members, by putting in common their resources,



activities and competencies. Despite the similarities in final objectives, the EEIG has the “legal subjectivity” and may have another aim rather than increasing the competitiveness in the market of its members. In addition, the EEIG requires the participation of at least two members, which belong to two different countries. Another form of cooperation is represented by TAC, which stands for “Temporary Association of Companies”, is usually established to participate in tenders and public competitions. Another purpose of TAC may be to divide a particular project or activity into different parts, so that each company performs the activity it is specialized in. In such way, companies can achieve projects, they would not be able to pursue separately. For this reason, the duration of TAC can usually be considered short-term in respect to other forms of cooperation (Buhart, Menand, 2001), also because the name of the model itself underlines the “temporary” duration of the aggregation. Another difference is that in TAC, the “leader” enterprise is the one who has the central role in the aggregation, represents the whole aggregation in the external environment. On the contrary, the network model presents the possibility of choice between a mandate with representativeness or without it. Consequently, a TAC is usually utilized for short or medium-term projects, and may represent an aggregation where the prevalence of the central enterprise is too strong (Buhart, 2001), so that conflicts of interests may arise. In addition, the possibility to participate in tenders has now been extended to networks (*see par. 7.1 “Modifications implemented during the period 2012-2015”*)

Another important form of aggregation between enterprises is the *consortia*. It is represented by the aggregation of enterprises, who decide to organize together some or all of the parts of the production process, by putting together a particular stage/s of it between all the members. On the contrary, the network form is usually utilized for more “advanced” objectives, rather than vertical integration, such as competitiveness and innovation enhancement⁷⁹. Moreover, the act of

⁷⁹ Williamson O.E., “Transaction-Cost Economics: The Governance of Contractual relations” in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, page 169.



unification of activities, and consequently the act of surrender of a particular member headquarter, is not requested⁸⁰. However, both forms are usually utilized with the aim to increase their members' competitiveness in the market, but only the Network contract permits to reach their lucrative and not only consortia objectives. In addition, both in TAC and consortia, the “common program”, which is one of the crucial contractual elements of aggregation between companies, and contains all the necessary details and purposes behind the creation of the organization, is missing. An important difference is also that, in the other aggregation forms, the juridical subjectivity is much more evident, than in the network of enterprises. The above made considerations have led to the conclusion that network form of aggregation outperforms the other existing forms of aggregations described (in relationship to the Italian context), as it represents a more developed form of aggregation between enterprises. In particular, it is able to overcome the limits of the already existing collaborative models, without destroying the peculiar individual characteristics of single enterprises, participating to such an aggregation (Zilio Grandi, Biasi, 2014).

3.1. ... and for large companies

We have previously underlined that Network contract introduction has mainly to do with the need of small and medium enterprises to go hand in hand with the globalized world, in order to be able to compete in quality and innovativeness, using or leveraging on the introduction of horizontal technologies and sharing the knowledge and responsibilities. At the beginning of the first chapter, we have mainly discussed about how a network model can be used by Italian small and medium enterprises (Ricciardi, 2003) in order to permit them to reach some of the capabilities of the big companies. However, the considerations made in the

⁸⁰ As already mentioned, one of the major prerogatives of the network discipline, is that it permits the companies located in different places to collaborate, and no particular requirements about these companies location is provided by the Law 122/2010, which disciplines the Network contract.



section about the advantages of the network model, may be applied also to the case of larger enterprises. In particular, those big enterprises, specialized in different activities, will have the possibility to leverage on the synergies deriving from the network⁸¹, to strengthen their business or to create new ones, or new activities. Moreover, they can also utilize it to overcome moments of crisis, by leveraging on the resources or experience of other networks' members, which eventually operate also in the international contexts. While for the small- and medium-sized enterprises, the main advantages of making part of a network derive mainly from its facility and low cost of entrance and flexibility of the contract of network.

Summarizing, Network contract represents a big advantage for all types of companies because it gives them the possibility to pursue ambitious goals without damaging their juridical autonomy.

In the next paragraph, a deeper analysis on the mechanisms of the Network contract from the juridical point of view will be provided. In particular, we will now discuss the development of the Network contract in time, since its introduction; the major modifications and the most relevant critical points related to this discipline, in order to understand which the most relevant advantages and issues related.

4. “Complementarity” vs “similarity”

Having analysed the differences between the already existing formal and informal models of aggregation between enterprises in the Italian context, another important concept has to be included. In particular, “collaboration” is a largely extended concept and can be present in different forms. In general, the

⁸¹ A. Ricciardi, in “*Le reti e le aggregazioni d'impresa*”, Finanza e gestione delle imprese Lombarde degli anni '10, Milano, 4th of February 2011, presents a framework on how networks of enterprises are an efficient tool also for bigger companies, based on the strategical projects development and industry enhancement objectives. Big companies in crisis can also utilize the network tool for purposes similar to those of SMEs, such as costs' cutting, resources sharing and organization of common activities.



collaboration is considered an implicit element of network establishment⁸², supported by an evident motivation and a strong desire to respond more efficiently to the existing market environment⁸³. For this reason, beyond the other traditional elements such as risks sharing, knowledge and information sharing in order to “create knowledge”, and transition costs cutting⁸⁴ achievement, it can be considered as one of the crucial elements for the network’s establishment and its future development.

In order to be able to determine the type of cooperation between enterprises within an aggregation of enterprises, we will analyse some of the theories referred to this argument. Authors like Richardson (1972), state that within clusters the cooperation is mainly based on one of these two characteristics of enterprises, which are “similarity” and “complementarity”⁸⁵. In this perspective, the concept of “similarity” refers to an aggregation composed by enterprises having similar characteristics and operating in same or similar industries⁸⁶. While “complementarity”, on the other hand, refers to a more vertically organized structure, where enterprises operate in diverse industries or perform different activities, so that they are complementary between them. In reality, the firms pertaining to the first category, are usually represented by competitors, while in the second case, they are partners or collaborators. In addition, the degree of

⁸² Williamson O.E., “Transaction-Cost Economics: The Governance of Contractual relations” page 170, in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996.

⁸³ According to Zilio Grandi G., Biasi M., “*Contratto di rete e diritto del lavoro*”, Cedam, 2014, the motivation of enterprises and their desire to achieve a better market understanding, are fundamental for their development.

⁸⁴ Williamson O.E., “Transaction-Cost Economics: The Governance of Contractual relations” in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, pages 168-199.

⁸⁵ According to Richardson G.B. in Dubois A., “Organizing industrial activities across firm boundaries”, Routledge, London and New York, 1998, pages 30-40, the relationships between enterprises with industrial clusters are mainly of two types: “horizontal” or based on “similarity” or “vertical”, based on “complementarity”.

⁸⁶ In “Towards a Knowledge-based Theory of the Geographical cluster”, in Martin R., “*Economy: Critical Essays in Human Geography*”, pages 377-340, P. Maskell illustrates the framework on the effects of the aggregation composition on its functioning, bases on different studies.



cooperation between the enterprises may depend on the already existing relationships between the network members, such as the degree of trust established and the motivation of them, but also characteristics related to the operational performance, such as specific competencies and the resource base of the network participants.

Despite the fact the above provided framework refers more to the cluster phenomenon, there are some similarities with network model. In fact, the empirical studies conducted on the recent aggregations established in Italy⁸⁷, partially confirm the framework above described. However, some differences are evident. In particular, the collaboration can be present in the three following forms:

- On a *complementary* level, when companies exploit the network form of aggregation in order to obtain the missing resources or competencies; this means that in the majority of cases these networks are characterized by the absence of a common strategical project and a long-term cooperation is not expected. However, companies may start by cooperating on a complementary level and proceed by cooperating more tightly.
- On a *coordination* level. This form of collaboration describes the functioning of a “central network”. This situation usually occurs in case of small companies, which do not have enough skills in order to plan and manage more structured projects or activities. However, due to the network form of aggregation, they still can make a part of these projects, by aggregating with more experienced companies that have more knowledge, but may lack tangible resources. In this way, all the parts benefit from the cooperation. There is also a higher probability of a long-term cooperation.

⁸⁷ The results of the studies on the recently established networks of enterprises, utilizing the Network contract, are illustrated in Cardoni A., “*Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises’ network “agreement”*”, Management Control 3 – special issue, 2012. The results obtained will be more deeply analysed in the par. 2.8 “Considerations about the empirical application of the Network contract”.



- On an *instrumental* level. This type of cooperation occurs when companies perform together all or some of the economic activities necessary for the network's functioning, with the aim of reaching their strategical objectives. This explanation may not be very specific and the distinction between the other two categories may not really be clear. For a better understanding, authors like Zilio Grandi, Biasi (2014) stress the fact that the word “instrumental” refers to a collaboration usually realized by sharing common tangible and intangible resources. A presence of a particular strategical project or plan is not necessarily expected. The companies may decide to collaborate in such form in order to fight the crisis of their specific sector, e.g. to save resources and/or for costs saving, or in case of a lack of particular intangible resources. More in detail, this type of cooperation usually alludes to a more “operational” collaboration, such as vertical integration.

This analysis already summarizes our previous distinction of the types of networks. Anyway, it was necessary to connect them to different levels of cooperation, in order to introduce an analysis of the juridical perspective related to this topic. In this way, we will be more aware of the reasoning of particular governmental interventions, related to the matter of network aggregation.

5. The Network contract institutional framework

The emerging phenomenon of aggregation between companies has mainly to deal with the transition of the economy to a new, more developed stage which could be defined as “knowledge economy”⁸⁸. The actual business environment has been

⁸⁸ The “knowledge economy” has been defined by Quagli (1995) as “the phenomenon of using knowledge and technology, in order to provide economic value”.



defined as a “rainy forest”⁸⁹, as it represents a series of complex relationships between enterprises, which requires some alternative and innovative solutions to the already existing forms of aggregation, as this has become inappropriate with the changes of the business environment. It has changed our way of thinking about the modern companies. As already mentioned, there are different types of aggregations between companies, but they all pursue one or more purposes, which can be summarized in the following categories⁹⁰:

- Enhancement of the competitiveness in the market of the company members.
- Achievement of knowledge or competencies enhancement in order to be able to reach *lucrative* objectives.
- Realization of product and/or production process innovation, in order to be able to create value in the long term.

Beyond the fact that inter-firms organizations are usually established because of the three reasons above mentioned, multiple forms of them exist. However, due to its flexibility and potential advantages, the network model has become the subject of study of many authors. Moreover, in the era of information, companies tend to organize in networks⁹¹, as they support the innovation and knowledge enhancement.

We have already considered the definition of network from the economic and organizational points of view at the beginning of this chapter, while now we would like to analyse this phenomenon from the juridical perspective. In the matter of fact, networking represents a very useful tool for those companies who

⁸⁹ Hakansson (2009) in Cardoni A., “*Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises’ network “agreement”*”, Management Control 3 – special issue, 2012, page 1.

⁹⁰ Three purposes of the inter-firm cooperation are the result of elaboration of Ricciardi A., “*Le reti e le aggregazioni d’impresa*”, Finanza e gestione delle imprese Lombarde degli anni ’10, Milano, 4 febbraio 2011.

⁹¹ According to Castells M., “*The rise of the network society*”, Oxford, Blackwell Publishers, 2000, the increase of the inter-firms cooperation is evident as the consequence of the era of information, where companies decide to share resources’ and knowledge in order to achieve advantages.



want to cooperate by putting together their resources and competencies, in order to have higher possibilities to reach their common objectives. Public and private institutions in many countries are supporting the establishment of strategical collaborative aggregations, since they are viewed as “an efficient strategic tool to solve the existent problems related to the lack of competitiveness and innovation for many small and medium enterprises.”⁹² The notion of network, arising from the policies implemented by the Italian government to establish the Network contract, can be considered “coherent with that of the traditional managerial abstracts”⁹³, where a “network” is intended as a planned strategical instrument utilized to establish a long-term collaboration, with the aim to protect or increase the competitiveness and the innovation of enterprises involved.

In Italy, the initial introduction to the Law system took place with the introduction of the Network contract. This happened with the emanation of the Law number 33 of the 9th of April 2009, followed by further law interventions and modifications of the existing discipline. This law has been introduced mainly because of the urgent problems of the Italian economy, especially in particular industrial sectors, with the aim of promoting and ameliorating cooperation between companies, in order to give them the possibility to seek purposes that they would not be able to pursue by acting singularly. A Network contract can be defined as “*an agreement, subscribed by the members, who perform the prearranged economic activities and formalize their union through this contract*”⁹⁴. By subscribing the Network contract, companies officially become part of a network and all the members commit to a “common program”. Moreover, the members have to collaborate in forms and contexts related to their activities, by exchanging information and/or

⁹² Etzkovic (2008), in Cardoni A., “*Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises’ network “agreement”*”, Management Control 3 – special issue, 2012, page 92.

⁹³ Jarillo J.C., “On Strategic Networks”, Strategic Management Journal 9, 1988, pages 32.

⁹⁴ Such definition is the elaboration of Villa (2009) in Cafaggi F., Iamiceli P., “*Il Contratto di rete per la crescita delle imprese*”, Giuffrè Editore Collana Quaderni di Giurisprudenza Commerciale n. 364, 2012, page 10.



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activities of industrial, commercial, technical or technological nature, and/or by realizing in common particular objectives related to the aim of each company.

Usually the objective of a network consists in increasing and enhancing, both on the individual and on the network levels, the competitiveness in the market and the capability of innovation of all the company members. It is also the main objective of creation of such aggregations, whose form and procedures find their origins in the Network contract discipline.

In the Italian juridical system, a number of policies regulates the matter of the Network contract. As we have already mentioned, the Network contract was officially introduced with the Law N.33 of the 9th of April 2009, (Legislative Decree 5/2009), known as the “Incentives Decree”, but it has seen a further development through the introduction of further laws and law interventions.

The most significant further policies related to the matter of Network contract are the following:

- Law 99/2009.
- Law 122/2012 (Legislative Decree 78/2010).
- Law 134/2012 (Legislative Decree 83/2012), known as the “Development Decree”.
- Law 221/2012 (Legislative Decree 179/2012), known as the “Development Decree Bis”.
- Law 224 of the 24th of December 2012.

The introduction of the Network contract with the Law N.33/2009 can be related to the fact that the dimensional problem of the Italian economy could not remain indifferent for the government for a long time. Beyond the fact that some Italian firms were already utilizing different forms of formal and informal aggregation, the decision of the government to introduce such formal instrument derives from the necessity to support cooperation small and medium enterprises, especially those involved in industries experiencing crisis. Moreover, this formal tool gives a juridical body to the spontaneous forms of cooperation between enterprises,



giving them the opportunity to share resources and knowledge, without damaging their juridical autonomy, and to exploit the advantages provided.

In order to provide a short summary of the Legislative Frame related to the Network contract, an analysis of the above-enlisted policies in the matter will be provided as following:

- Decree N.5/2009 (art. 3) has been converted in Law N.33/2009 “Conversion into law, with modifications, provided by the Decree of the 10th of February 2009, Num. 5, laying urgent measures for industrial sectors in crisis”. In this context, the Network contract has been defined as the *“agreement through which two or more companies commit to exercise together one or more economic activities, which comply with their social objectives, with the aim to increase their reciprocal innovation capability and competitiveness in the market”*.
- Later, the Law N. 99/2009 has introduced some integrations and modifications to the Law N. 33/2009. With this law, the Government has underlined that the Network contract has to define the strategical objectives and common activities that contribute to the enhancement of the innovation capabilities and competitiveness in the market. It also defines all the types of enterprises and entrepreneurial personalities that can enter to be a part of a network. Additionally, this law disciplines the responsibility of the network in relationship to third parties involved. Moreover, it has established the introduction of the *“common organ”*, as the authority that will represent the network in the external environment.
- Later, the Legislative Decree num. 78/2010, converted in law num. 122/2010, art. 42, attributes to companies, recognized as members of networks (due to the art. 42, comma 1) administrative, financial and fiscal advantages, and the possibility to stipulate agreements with IBA (Italian bankers association). The law 122/2010 also defines some of the fundamental parts of the Network contract, such as its object, assets, governance, termination and dissolution. In particular, the object of a network contract establishment is considered as both



“the activities companies perform together in order to reach their common goals” and their “collaboration organized in order to share information”. Beyond the objective of the network creation, the contract also has to contain the strategical goals of it, and the “common program”, which contains all the rights, and duties of the companies, the modalities they are going to use to reach their common purposes and the configuration of the equity fund. In addition, Network contract has to contain the list of all the different forms of companies within the network, which can be individual enterprises, limited capital corporations, limited personal corporations, associations, research centres and universities, private institutions with public positions, artisans, traders and freelancers.

- Finally, the “European Network Contract”, introduced to promote cooperation between the companies of the European Union. In particular, one of the main objectives of this policy is to promote the “culture” of the network between European SMEs.

5.1. The most relevant formal procedures

With relationship to the formal procedures, the Network contract can be considered a flexible and “open” form of agreement, as it does not provide particular limitations for the companies who want to make part of it. In particular, by analysing the above provided Legislative frame, it follows that:

- Apparently, there does not seem to be any kind of limitations for the type of companies (the Law 33/2009 refers to the general category of “*entrepreneurs*” without specifying the characteristic they need to have), number of participants, location, industrial sectors of participants and others. In the matter of fact, networks can be composed by different types of companies (the so-called “mixed networks”) such as individual enterprises, corporations, non-profit associations, and organizations with



non-commercial purposes (e.g. foundations). A minimum number of companies necessary to establish a network is not expected. Consequently, only two entrepreneurs can create a network. Additionally, inter-connected and inter-controlled companies can make part of the same network (due to the *art. 2359* of the Italian Civil Code). As there are no particular limitations related to the types and the number of enterprises, who want to become part of this aggregation mechanism, the only requirement for them is to be registered in the Italian CCIAA (Chamber of Commerce, Industry, Artisanry and Agriculture). Furtherly, also banks and public organizations can enter to make part of networks, if the main purpose of their activity is to create economic value.

- Moreover, there are no particular temporary limitations for entering a network. Companies can decide to make part of it both at the time of its establishment, or later. In addition, some companies can leave the network and other can enter it, but it is important to always modify the Register of Enterprises and introduce all the modifications in it, in order to keep it updated. The procedures of the register updating will be explained later in this chapter.
- In addition, there are no limitations for the duration of the network, if it has not been decided by the companies and specified in the contract. Otherwise, companies can decide how long to collaborate, due to their expectations and the nature of their objectives. In fact, some networks decide to break up once their members have reached their short-term objectives, while others decide to maintain their cooperation for a long time, in order to exploit synergies created in order to obtain long-term value and transform in a more solid aggregation, such as a group of enterprises.
- No particular limitations for the type of sector for the companies members as also no particular type of business for the companies in the network is specified.



- Finally, any specific limitations about the location of the members are present. In the matter of fact, a network can contain foreign companies if they have a permanent plant in Italy (due to the policy N. 15/E of 14 April 2011 of the Income Revenue Authority).
- Finally, companies can make part of more than one network. The only requisite is that the objectives of the networks they make part of, have to be compliant with the activities these companies perform.

From our analysis above emerges the fact that, the Network contract seem to have no particular limitations and this can be viewed as a big advantage for the companies which did not have the possibility to participate to other types of aggregations before, as those present several restrictions caused by the presence of a particular type of requirements. On the other hand, the absence of precise indications gives too much liberty of choice to the potential members, and this may lead to several difficulties, arising from unappropriated or incorrect application of the Network contract. These points will be discussed more deeply in our analysis of the critical points of this discipline (*see par. 7.2 “Some critical aspects”*).

Beyond the flexibility related to many aspects, also mandatory elements for the Network contract exist:

- First of all, a detailed description of all the members of the network, containing their registered names and the registered name of the organization (if they belong to a larger organization). It does no matter whether they have subscribed the contract at the beginning or later, their names have to be written or added into the contract.
- “Strategical objectives” of the companies members aimed at increasing their innovation capabilities and their market competitiveness; also the modalities aimed to measure the progress related to such objectives have to be indicated (in general, they are discussed and decided by the companies before the establishment of the network agreement).
- Rights and duties of all the participants.



- The modalities network will use to reach its purposes.
- Duration of the contract.
- Modalities of further entrance of other entrepreneurs into the network.
- Modalities and rules, which will be used during important decisions for each matter and for the decisions of common interest.
- In addition, if a “common organ” has been elected, the participants will have to include its name into the contract. The modalities utilized by this person to make decisions have to be indicated. In addition, if the also “common program” has been defined; companies will have to include rules of the further modification of it.

Beyond the mandatory elements above provided, there are other elements considered not mandatory, but still very useful to support the cooperation between enterprises with a network. In particular, the introduction of such elements often contributes to the increase of the efficiency level of the Network contract⁹⁵, by facilitating the collaboration between its members. The two most significant possibilities offered by the Network contract discipline are the following:

- The establishment of an equity fund ⁹⁶ composed by different types of investment, such as money, real estate, tangible and intangible resources, services etc., in order to facilitate the achievement of the goals established by the network. In such case, the contract will have to contain the description and the measures of all the investment types that each participant has made into the network's equity fund, as the rules and modalities for further investment. In addition, the rules for the costs' and

⁹⁵ According to Iamiceli P., “*Il contratto di rete: le opportunità dello strumento tra problemi e prospettive*”, Assindustria di Vicenza, 2011, the presence of the “equity fund” and the “common organ” contribute to the enhancement of cooperation between enterprises and to help to solve the problems related to strategical planning and activities' coordination.

⁹⁶ The establishment of an equity fund is not compulsory, such as the election of a common organ with the role of coordination and representation of the network. The need of a representative of the network has been introduced with the emanation of the *Law 99/2009*, which we discussed at the previous point, and it is strictly advisable, but it is not mandatory.



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revenues' sharing should be included. The duty of the investment is valid for all the participants, but the measure of the investment can be different. Participants can decide to invest in proportion to their dimension, or to invest in equal parts, so that also the costs and revenues will be divided equally. In case an equity fund is established, it will be regulated by the same discipline, which rules the consortia funds, as they are considered similar. In addition, the financial forecast of the equity fund is required if the network wants to take advantage from the fiscal incentives (if those are available for that particular type of network). On the contrary, if the members decide not to establish an equity fund, they have to provide a budget for the annual expenses of the network and specify all the details and the modalities of the balance sheet calculations of this budget in the contract. Moreover, in this case, the autonomy of the financial decisions of the network will not be as immune as it would in case of an equity fund.

- Another not mandatory, but strictly advisable element is the “common organ”, with the function of coordination and execution of the network activities and representation of the network in the external environment. In addition, such organ will be attributed the power deliberation of all the important decisions, so it can be compared to the Administrative Council of the network. In particular, the common organ will be responsible for representing the network as a unique organization during its relations with the Public Administration, financial and credit institutions, during the processes of promotion of the products' quality and the innovation and competitiveness enhancement processes. Additionally, it will be responsible for executing and performing the actions necessary to pursue the objectives of the network and for coordinating all the processes necessary for a correct and efficient functioning of the network as a cooperation organism. It will be also responsible for performing complex economic operations. Usually it is highly recommended to establish such an organ in case of complex networks with a big number of participants. In



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case the network participants will decide to establish such an organ, they will to specify all the details about the person who will cover this role in the Network Contract and list the modalities, which will rule the decision power of it. In addition, they will need to describe the modalities with which the replacement of such an organ will be regulated, if necessary. The common organ should not necessarily be a member of the network, but could be an external person or organization. In such way, the neutrality and impartiality of the representative will be guaranteed, as choosing an internal member as a representative, can cause a conflict of interests.

In case a common organ is present, it would be advisable to list and describe in details all the points of the decision power of such a person, which are not specifically mentioned in the Law 33/2009, in order to avoid confusion and conflicts of interests. In the matter of fact, there is some confusion between the decision phase and the execution phase, which are contained in the law 33/2009. It is definitely not clear whether this law attributes the decision and the execution power to the joint nature of all the members or to her common representative, if such is present. Another relevant point is the responsibility of the actions of the representative, which will depend on the attorney power, which the members have attributed to him in the mandate contract. In addition, participants of the network can decide whether to attribute the common organ the representativeness function or not. In the positive case, the common organ will act in name and in behalf of the network's members. While, in the contrary case, it will act in behalf of the network's member, but in its own name (such distinction will be more deeply explained the par. 8.1, "The accounting procedures for Italian networks"). Consequently, different configurations of a network exist.



Summarizing, networks can be present in the following forms:

- Those with an equity fund, but without a common organ.
- On the contrary, with a common organ, but without an equity fund.
- Those having both an equity fund and a common organ.
- With a common organ and one or more assets necessary to cover all the necessary expenses for the network functioning.
- In addition, there can be networks with a particular internal organization and a common fund with an asset autonomy.⁹⁷

With reference to the considerations made above, the next paragraphs will provide a general framework on the network model advantages, with the attempt to connect them to the existing institutional framework.

We will mention some of the advantages deriving from the contract's particular structure, its advantages and disadvantages. Furtherly, the recent progresses achieved and the related critical points will be included. Finally, a brief analysis on the empirical application will be provided.

In the first chapter, we have already mentioned some of the most important advantages a network model presents in relationship to problems related to the actual world economy. We will now summarize the main advantages illustrated, and provide some evidence on efficiency of the Network contract in the Italian Institutional system in such perspective.

6. Advantages of the Network contract in the Italian context

In the era of globalization, three elements have loosened their importance, in particular, the commitment to national products, the decrease of the transport costs and the erosion of inter-countries' barriers. For this reason, the national market is not as a "secure" place for these companies to survive, as it was

⁹⁷ Such possibility is provided and illustrated by the articles 2614 and 2315 of the Italian Civil Codex.



considered before globalization.⁹⁸ For this reason, many national enterprises have loosened their competitive advantages or a part of it, as the elements at their basis of it have lost their importance. Moreover, the authors, such as Weber (1909) argue how the majority of goods have become “ubiquities”, what he defines as a phenomenon when “inputs are available to the majority of firms at almost equal or even same price”⁹⁹. For this reason, companies have to rethink about alternative strategies, in order to remain competitive and continuously maintain their innovation level vital. These strategies should involve all the important processes of the company’s routine life cycle.

Every enterprises, for the development of each activity related to its functioning, has three alternatives: developing it on its own; resort to market transaction; or organizing a cooperative agreement with other enterprises, who possess the resources necessary to provide such an activity.¹⁰⁰ However, many important economists and scholars have written also about intermediate possibilities to develop economic activities mentioned. In the matter of fact, several mentioned the possibility of co-operative agreements as a solution.¹⁰¹ “*Even in very competitive industries, it is important not to overlook the complementary relationships which exist as well*”¹⁰². With reference to the formal discipline analysis, it is considered by many authors¹⁰³ that the Network contract formal

⁹⁸ Maskell P., “Towards a Knowledge-based Theory of the Geographical cluster”, Martin R., “*Economy: Critical Essays in Human Geography*”, Aldershot and Burlington, 1996, page 378.

⁹⁹ Weber (1909) in Martin R., “*Economy: Critical Essays in Human Geography*”, Aldershot and Burlington, 1996, page 378.

¹⁰⁰ Mariti P., Smiley R.H. in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, page 278.

¹⁰¹ Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, pages 279-280.

¹⁰² Andrews P.W., “Industrial Economics as a Specialist subject”, *Journal of Industrial Economics*, Volume 1, 1952, page 72.

¹⁰³ Cardoni A., “*Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises network “agreement”*”, *Management Control* 3 – special issue, 2012, pages 92-95.



discipline, ruled by the Italian government policy, represented the Law 122/2012 (*Legislative Decree 78/2010*) does respect the traditional business management discipline about the inter-organizational agreements, and is coherent with it. Such consequence derives mainly from the characteristics of the contract, such as the duty of the enterprises to establish strategical objectives, the strategies to implement in order to achieve them and the measurement instruments employed in order to evaluate the network's performance in relationship to such objectives. For this reason, the network contract establishment can be considered as an “engineered process”.

In general, it is considered that inter-firms contractual agreements affect importantly both the performance of companies and their transaction costs.¹⁰⁴ Moreover, they significantly influence both financial and extra-financial activities of an enterprise. That is why networks are considered as an efficient tool in terms of performance efficiency increase, as they help to valorise the companies' members' resources¹⁰⁵. In addition, inter-firm agreements have important impact on the firm overall performance.¹⁰⁶

With relationship to our analysis of small and medium enterprises, organizing in a network helps these companies to overcome the problem of “overspecialization” and to develop new competencies, to obtain new knowledge and develop in other directions. It permits them to create new job places and to solve the problem of high costs and risks related to the introduction of new activities, by providing them with the possibility to share risks and costs between all the participants. It offers to SMEs the unique possibility to enter the markets and to have access to

¹⁰⁴ Williamson O.E., “Transaction-Cost Economics: The Governance of Contractual relations” pages 168-199 in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996.

¹⁰⁵ Mariti P., Smiley R.H. in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, pages 279-280.

¹⁰⁶ Cardoni A., “Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises network “agreement”, *Management Control* 3 – special issue, 2012.



knowledge and information that they would never be able to access to, mainly because of the elevated costs. Beyond the fact that it permits them to save costs and share risks, but also to become part of a unique organization and to obtain competitive advantage. In the perspective of the Italian institutional discipline related to the Network contracts, we will illustrate the most important advantages related to the Network contract.

A significant advantage derives from the particular composition of the Network contract itself. On one hand, the fact the Network contract explicitly requires the existence of such elements such as “strategical goals” and the careful definition of the business plan, means that strategical business planning will be involved in the process of network creation, and this will increase the probability of success (Ricciardi, 2003). The success refers to the creation of efficient and solid network. The crucial importance of the presence of Business Objectives, as the first element at the basis of a stable and successful network, may be connected also to the necessity of existence of an organization, performing the “triggering role” for the development of a strategical business project. In reality, such role is usually covered by the “leader” enterprise. Moreover, many authors claim that the presence of strategic thinking within cooperative aggregations is of crucial importance, beyond the existence of written business plans.

In addition, other relevant elements have not to be taken for granted, in order to support the network's efficient functioning. Between such activities, we can find the elaboration of a multiple instruments and procedures, which would support and enhance the collaborative relationships between enterprises within an aggregation. In particular, the existence of procedures necessary to organize the network activities' related to its strategical goals, instruments to measure the performance related to the objectives established, accounting techniques, procedures related to budgeting and other financial activities of the aggregation, reporting of the results are necessary¹⁰⁷. With reference to such elements, the

¹⁰⁷ Cardoni A., Tiacchi L., Saetta S., “Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations”, Università degli studi di Perugia, 2012.



Network contract provides some important strategical tools to support the companies' activities. (*see* par 5.1 “The most relevant formal discipline”), such as the “common organ”, with the important role of the activities coordination, problem solving and network representativeness. However, such organ can also be involved in the accounting activities (the procedures will be described in the par. 8.1 “Accounting procedures for Italian Networks”). In addition, a further strategical instrument of the contract is represented by the “common program” presence, with the above-mentioned advantages.

Additionally, as the Network contract is defined as the “*agreement through which two or more companies commit to exercise together one or more economic activities, which comply with their social objectives, with the aim to increase their reciprocal innovation capability and competitiveness in the market*”, the first relevant advantages to analyse are those related to competitiveness and innovation enhancement.

6.1. Competitiveness and innovation enhancement

Networks are considered one of the business models able to win the multiple challenges of the global economy. Not only a network serves as the incubator of innovative ideas (Grandori, 1995), as it unites companies and other types of organizations with different knowledge and capabilities, but it also offers them a possibility of a further development, due to the synergies created within this type of aggregation model. As already mentioned, the creation of Small Business Act and the further introduction of policies on Italian level, represent the result of the necessity to modify the existing law in the matter of some industrial sectors in crisis and as a measure to support small and medium enterprises. For this reason, the two fundamental objectives established are described as “enhancement of competitiveness and innovation” of the firms participating to networks. It is important to explain how these advantages are created within aggregations of enterprises.



Beyond the advantages already described, one of the most significant benefits of the networking strategy is represented by the competitive advantage of those companies who become part of a it; being a unique and inimitable type of aggregation, it is difficult, or even impossible, for other types of organizations to completely “duplicate” it¹⁰⁸. In addition, networks create and help to maintain different types of relationships not only between the members, but also between companies and different types of stakeholders. In such way, they able to valorise those key resources and activities necessary to create value in the long term. Being a Network contract a highly flexible structure, without any particular limitations for the type or characteristics of enterprises necessary to participate to it, it facilitates the establishment of strategical partnerships and entrance of new enterprises.

With relationship to innovation, being a network represented by a unique aggregation of already- existing companies, each with its own specific know-how and peculiar knowledge, it contributes to the creation of “new” and unique network of inter-relations between enterprises¹⁰⁹. Such network is able to renew the already existing knowledge, and in such way to contribute to the innovation achievement, and to the long-term competitiveness achievement. In addition, one of the recent tendencies of the enterprises is the “knowledge creation”, which can be diversified at least in two main categories. The first one is characterized by investment in Research and Development activities, collaboration with research institutions and similar. However, the main limit of this solution is that it requires a large amount of financial resources, to invest in such projects, which not every firm possess. As an alternative, the second solution is represented by activities

¹⁰⁸ According to Soda G., “*Reti tra imprese. Modelli e prospettive per una teoria del coordinamento tra imprese*, Carocci Editore, Roma, 1998, one of the major advantages of the synergies related to cooperation are represented by the creation of a unique inter-connection of enterprises, whose resources’ and knowledge base are different from those of the other existing aggregations. Consequently, such characteristics cannot be duplicated by the competitors, being their unimitable.

¹⁰⁹ Maskell P. “Towards a Knowledge-based Theory of the Geographical cluster”, in Martin R., “*Economy: Critical Essays in Human Geography*”, Aldershot and Burlington, 1996, pages 377-399.



aimed at enhancing the firms' "incremental low-tech".¹¹⁰ Such practice represents all the investments aimed at increasing innovation related to routine activities, such as product development, personnel management, sales and distribution organization, etc. In addition, can they be considered less expensive from the investment point of view, but not less efficient, as they highly influence all the important activities related to the network functioning. Network, as a form of cooperation between small and medium enterprises, can be considered the appropriate instrument to permit these companies to create the second category of innovation¹¹¹. What happens is also that in many cases, the small companies' managers or producers do not possess specific competencies and specific information about the knowledge they utilize by performing their daily activities, by cooperating, they may "recklessly" create new knowledge, important for their functioning. In the past, important world organizations, such as OECD, have already recognized the contribution of such knowledge creation.¹¹² However, this will occur only if the firms are willing to cooperate with the others and share their strategical information and "know-how"¹¹³. Under such conditions, the networks will have the possibility to grow and to reinforce their stability. In addition, many authors during the years have supported the thesis of fundamental importance of intangible resources, for the firms' development and their competitiveness

¹¹⁰ Laestadius S. (1996) in Martin R., *"Economy: Critical Essays in Human Geography"*, Aldershot and Burlington, 1996, page 377.

¹¹¹ Freschi S., Malerba F., *"Clusters, networks, and innovation"*, Oxford University Press, New York, 2005.

¹¹² The Industry Committee's Working Party on SMEs, created in 1993, has developed and decided to include in its annual report, the best practices for the development of small and medium-sized enterprises, provided by the countries members' representatives. These practices include solutions to the issues these countries present related to the four important matters for SMEs development, such as financing, business environment, management capabilities and access to markets. It represents a set of practice solutions and the most interesting study cases, to be able to better discuss them. For example, it explains how in Europe there have already been several attempts of cooperation between small and medium enterprises, even though under different forms rather than networks of companies. (*Best practice policies for SMEs*, OECD publications, France, 1994).

¹¹³ According to Ricciardi A., *"La rete come incubatore di innovazione per le imprese agroalimentari"*, PianetaPSR numero 26, 2013, only the firms willing to cooperate and to share their knowledge with other enterprises, will achieve positive results related to cooperation.



increase (Mwailu et al. 1983). Many important studies, such as those based to Resource based view ¹¹⁴ approach and similar, have confirmed the importance of such resources, as they proved to be crucial for the achievement of a higher competitiveness level. The resource-based theory considers mainly the concept that strategical resources of an enterprise can “go beyond the confines of the company itself, and be exploited in the inter-firm relations, in order to create new resources”.¹¹⁵ Despite the fact that often resources are taken for granted, they are at the basis of each company’s success and its ability to gain profit. Multiple studies on this discipline do exist, but the majority of them are coherent with the fact that the efforts of the enterprises, willing to pursue the objectives of competitiveness and innovation enhancement, have to be aimed at creating business models¹¹⁶, suitable for the achievement of their goals of innovation and competitiveness enhancement. In the economic literature, a business model is viewed as a set of strategical and organizational resources through which companies acquire competitive advantage, “the logic through which an organization is able to create, share and capture value”¹¹⁷. Considered this, a network model may represent an efficient tool for those companies seeking their competitiveness and innovation increase, as it present the characteristics necessary to be defined a business model. Consequently, being the Network contract considered compliant with the network model characteristics, it represents an

¹¹⁴ The Resource based view, or RBV, is a theory the underlines the importance of resources for the development and conservation of competitiveness advantage and development of an enterprises. With reference to our network analysis, this theory places a fundamental importance on resources created by the interaction and integration of tangible and intangible resources of different enterprises, able to generate capabilities and competencies vital for long-term the competitive advantage development. These resources have to be idiosyncratic and difficult to imitate, as unique a possible. This theory has been studied and followed by many important authors, such as Mwailu and Mercer (1983), Wernerfelt (1984), Rumelt (1984) et al.

¹¹⁵ Cardoni A., Tiacci L., Saetta S., “Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations”, Università degli studi di Perugia, 2012.

¹¹⁶ Teece in Grandori A., “Interfirm Networks. Organization and industrial competitive”, 1995, Routledge, Oxon, page 105.

¹¹⁷ Grandori A., “Interfirm Networks. Organization and industrial competitiveness”, 1995, Routledge, Oxon.



appropriate instrument for the companies to achieve their goals of competitiveness and innovation enhancement.

A further benefit of the network model is that it can also contribute to the enhancement of employees' skills. Many authors (Muehlemann, Wolter, 2014) agree on the fact that providing training¹¹⁸ will guarantee a higher performance and will create value in long-term. Moreover, the costs recovery time will not be very long, as long as the costs-benefits ratio in the case of investment in training is lower than those of recruiting highly skilled workers. However, it has been empirically proved¹¹⁹, that many important elements influence the firm and aggregation willingness to invest in it. In addition, not all the countries provide efficient policies in this matter, in order to support and enhance the apprenticeship for enterprises. In the matter of fact, the research by Muehlemann and Wolter (2014), confirms how some countries are more efficient in this context (such as Switzerland, Germany, Austria), while others are less. With relationship to the issue of small and medium enterprises, the importance of apprenticeship issue is even higher, as these companies constitute a large part of European economy. However, the majority of them do not possess enough resources to organize training and learning activities for their employees, mainly due to the characteristics of their internal structures, such as lack of resources, or due to the absence of the appropriate governmental support. Consequently, these companies will be unable to recover the cost invested in training, and will often renounce on doing such investment. On the contrary, large corporations often do not have such

¹¹⁸ In particular, Muehlemann and Wolter, have created a framework comprising all the elements affecting the firms' learning and training capabilities, between which we can find the firms' internal regulation and resources' base, but also important external characteristics of the environment such as the institutional policies, the competition in that particular market, the competition of the labour market etc. In particular, the two last elements in the list may be considered determinant in the necessity of governmental policies, as they determine the companies' requirements for skilled workers, and, consequently, the necessity of providing adequate policies in the matter. Summarizing, the competition is considered to play an ambiguous role in relationship to the issue described, while the institutions have to provide adequate policies in order to render such role as positive as possible. (*"Return on investment of apprenticeship systems for enterprises: Evidence from cost-benefit analyses"*, Muehlemann, Wolter, IZA Journal of Labor Policy, 2014).

¹¹⁹ Brunello G. *"The effect of economic downturns on apprenticeships and initial workplace training"*, Empir Res Vocat Educ. Train 1, 2009, pages 150-160.



problems, as their possibility to provide training are much higher. However, the authors Muehlemann and Wolter (2014) agree how organizing in a network may also increase the firms' capability and willingness of training investment, and will help to decrease the investment recovery time. The network members will benefit by organizing common training and learning activities for their employees, in order to create important synergies and decrease the resources' expenses involved. In this way, not only can they share knowledge and strategical "know-how", but also "increase their comparative advantage in skill-provision"¹²⁰. The current discipline on the Network contract provides two general elements related to the employees' treatment, which are the "co-employability" and the "detachment" of employees. Such elements will be discussed in the par. 7.2 "Modifications implemented during the period 2012-2015".

6.2. Fiscal and financial advantages

Having briefly described the main advantages deriving from the network model utilization, we have more than once mentioned how different authors underline the importance of synergies creation (Grandori *et al*, 1995) based on resources' and strategical knowledge sharing, at the basis of the network's development.

Despite the "knowledge creation is seen as an extremely expensive process"¹²¹, we have provided some evidence on how it is possible within aggregations of enterprises to benefit from such advantages, without the necessity of large investment in the strategical knowledge creation, as it can be created also from the routinely information and know-how sharing and interaction of different enterprises.

¹²⁰ Muehlemann S., Wolter S.C., "Return on investment of apprenticeship systems for enterprises: Evidence from cost-benefit analysis", IZA Journal of Labor Policy, 2014, page 3.

¹²¹ Maskell P. "Towards a Knowledge-based Theory of the Geographical cluster", in Martin R., "Economy: Critical Essays in Human Geography", Aldershot and Burlington, 1996, page 378.



However, some prerequisites are also necessary to benefit from such advantages, such as a clear business strategy in order to efficiently and appropriately utilize the model.¹²² Finally, the enterprises making part of an aggregation, such as networks, will be able to obtain important benefits such as scale economies, deriving from resources' saving, as they will organize together activities and share costs and risks. In addition, the transition cost cutting will occur, as some activities will be performed internally, and not externally.¹²³

In this perspective, we would also like to include a framework, deriving from the analysis of the existing discipline on the Network contract, in order to illustrate how the Italian government supports small and medium enterprises in their attempt to achieve the advantages above mentioned. In particular, the two main advantages deriving from the contract will be included, which are financial and fiscal advantages. Financing issue is crucial for the development of small and medium enterprises, there is a general awareness on the difficulty for such companies to obtain it¹²⁴, so a particular system to support them was provided, and will be illustrated in the following paragraph.

In general, fiscal advantages are important to support the costs saving processes, but also to stimulate investment. The main prerequisites to obtain such advantages will be included, in order to provide also an operational view of such benefits.

As we have already mentioned, one of the fundamental sets of benefits of the Network contract is represented by the presence of financial and fiscal advantages for the enterprises members. These elements cannot be taken for granted, especially in the historical period like this, when many small and medium enterprises fight against financial and economic crisis to survive. However, before

¹²² Cardoni A., Tiacchi L., Sietta S., "Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations", Università degli studi di Perugia, 2012, pages 3-4.

¹²³ Williamson O.E., "Transaction-Cost Economics: The Governance of Contractual relations" pages 168-199 in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996.

¹²⁴ According to Ricciardi A., "Le reti di imprese: aspetti normativi, gestionali e fiscali", Rivista "Amministrazione e Finanza", Milano, 1st of August, 2013, there is a general difficulty for small and medium enterprises to obtain financing, related to their small size and the consequent guarantee of return.



analysing these advantages, it is important to understand the procedures necessary to obtain them. In particular, in order to improve the quality and the complexity of such relevant elements for the networks functioning, as the access to financing, “it is of crucial importance to understand how the relationships between networks and banks are structured”.¹²⁵

Mainly two cases related to the argument of financing, which can furtherly present themselves with different shades, are present in practice. These cases are: when financing is requested by single enterprises, or when banks decide to finance an aggregation of companies as a unique organization. In the first case, the situation does not represent any particular complications; if not the general difficulty of the access to financing that today's world of finance presents. It is important to underline that, the attribution of credit to both single firms and their aggregations cannot represent a random process, due to all the complexities it involves. Both have to represent strong and solid realities, in order to demonstrate that these financial resources will be used efficiently and will be utilized for their development, and, obviously, their possibility of return. For this reason, a particular system of ranking has been elaborated, in order to measure each company's “merit for credit”. In this way, financial institutions can more efficiently evaluate the merit of single enterprises and their possibility of return. On the other hand, enterprises will be evaluated more fairly, and their value will be recognized.

With relationship to the case when a network, as a unique entity, asks financing, the situation becomes more delicate and it is not always easy to efficiently measure its merit, being it constituted by many different enterprises. However, an attempt to create a system to evaluate networks has been made, and this system is based on a *rating system of evaluation*, created to measure their overall performance. It has been introduced with the Legislative Decree N.179/2012 and

¹²⁵ The statement is the result of elaboration of Ricciardi A., in “*Le reti di imprese: aspetti normativi, gestionali e fiscali*”, Rivista “Amministrazione e Finanza”, Milano, 1st of August, 2013, pages 7-8.



the Law 134/2012. In this way, an efficient and conspicuous way of assessment is possible. It is based on several criteria ¹²⁶, which permit to appraise different aspects of the networks functioning, between which we can find elements as:

- The stage of the life-cycle in which the network is currently situated; in this way is it possible to understand the level of its development and its future perspectives. It is also relevant to understand the stage of planning of network's activities, an important aspect on which financial institutions usually pay several attention. This first criteria itself already represents one of the most important assessment elements of the networks possibilities to gain access to credit. When a network is just established, usually, it may seem to be fragile; while, when it is in its maturity phase and there are no evident signs for a further development, it may be difficult to acquire a high position in the rating of networks evaluation in their access to financing.
- The quality of the network contract. This criterion also represents an important instrument to evaluate the efficiency of a network. Firstly, it helps to understand whether the contract is coherent with the objectives of the network and whether all the instruments necessary to guarantee the correct functioning (compliant with the common program and the pre-established aims) are present. In addition, the participation to the common fund and the compliance to the actions with the common program are relevant. Finally, the composition of the network (the development level of each single enterprise) plays a fundamental role in the elaboration of such an appraisal criteria.
- The type of cooperation between companies within a network. This argument refers to the paragraph 2.3, in which we have already discussed the three main types of collaboration of enterprises in aggregation forms.

¹²⁶ Ricciardi A., in *“Le reti di imprese: aspetti normativi, gestionali e fiscali”*, “Amministrazione e Finanza”, Milano, 1 of August 2013, provides a framework on the evaluation of the enterprises functioning in obtaining financing. Such criteria are mainly related to the overall performance indicators of the networks' members.



The presence of a strong leader-enterprise is important, and the quality of its partners and the tightness of their cooperation do not have to be taken for granted.

- The characteristics of leader enterprise/s. Some important elements, such as the development level and the coordination qualities, will be assessed, in order to understand whether this company can represent a solid actor in the role of the network's development¹²⁷.
- The characteristics of knots. Similar criteria will be applied also to the evaluation of the partners.
- Another crucial element is to understand whether the network has been created within an industrial district, or not, to be able to measure its efficiency. As we have already mentioned in the paragraph 1.3, network situated inside industrial districts, present a higher probability of a successful development.
- The quality of the relationship ties between all the members of network, the criteria applied in the research and choice of the partners, and the criteria utilized in the calculation of potential risks deriving for the cooperation. All these elements are relevant to understand whether participating to a network is a highly planned idea of all the members, and whether they are contributing at their best to its success.

It has been demonstrated that more solid and consolidated the network is (as the enterprises within it), more it will be able to gain a higher level in the rating and have a possibility to be attributed a lower interest rate in its financing. This shows that an important step to overcome this difficulty has been made. However, some complexities related to this matter are still present. We will come back to this argument while discussing the case studies.

¹²⁷ In particular, all the general characteristics of the leader firm, such as its balance sheet data, its position in the national and international markets, investments in R&D, will be evaluated. In addition, all the actions related to the network activity of these enterprises will be carefully assessed, such as the level of leadership and results related to coordination, the common investment and the level of enhancement of innovation and competitiveness for partners. Ricciardi A., in *“Le reti di imprese: aspetti normativi, gestionali e fiscali”*, Rivista “Amministrazione e Finanza”, Milano, 1st of August 2013, pages 9-10.



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One of the most evident reasons why companies decide to aggregate themselves under a network form, is the fact that both European Union and furtherly, the Italian government, decided to introduce a series of fiscal and financial advantages in order to provide help and support to those companies involved in industries experiencing crisis. This effort has been made to support the culture of cooperation, mainly between small companies that usually experience difficulties in their request for financing and cannot afford to pay the large quantity of taxes weighing on them. All the relevant policies in this matter were introduced to permit the recovery of the European economy, and represent an important advantage for the largest part of its companies. However, before discussing these benefits, it is important to understand how it is possible to obtain them from the juridical perspective and what procedures are necessary to be able to exploit them. Many elements from the juridical point of view cannot be taken for granted, as the creation of a basis necessary to obtain fiscal and financial advantages related to the matter of networks.

The first important choice for the network is to have, rather than not to have a juridical subjectivity. Consequently, the most relevant distinction is between the networks based on contracts, but without juridical subjectivity, and those who do possess it. These two categories can be summarized in “networks-contracts” and “networks-legal entities”.¹²⁸ One of the important consequences of the obtainment of a juridical subjectivity is the fact that the network is considered as a unique reality for the national juridical law, so it is attributed all the rights and duties that this involves. In particular, a network, as a unique entity, is attributed a VAT number, which confirm that it has all the necessary elements to be considered a legally constituted aggregation. These networks will be subjected to the tax rules, similar of those of single companies, but they will have to conduct all the records related to the calculations of the tax amount. They will also be obliged to hold the

¹²⁸ According to Zilio Grandi G., Biasi M., “*Contratto di rete e diritto del lavoro*”, Cedam, 2014, page 33, the major distinction between the networks from the juridical perspective is between the above-mentioned “networks-contracts” and “networks-legal entities”.



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accounting records on their own. While the relationships between the different members of the networks will be ruled by the same policies which guide the relationships between the associates of a society. In addition, the amount of the participation to the network's equity fund will be decided with reference to the matter of the societies. This short description was necessary in order to arrive to the conclusion that not all the categories of networks can benefit from the fiscal advantages related to this matter. In fact, with the intervention of the Tax Agency N.20/E of the 18th of June 2013, those networks considered as legal entities (those described above) cannot benefit from the fiscal advantages provided for the networks of companies.

On the contrary, to the category of networks, which can benefit from the advantages provided by the Italian law, belong those networks, which we have categorized above as "network-contracts"; being they not considered as legal entities, and, consequently, not obliged to hold some of the fiscal and accounting records in order to elaborate the calculations compliant with their network activity. All the effects produced by these networks will have consequences on the juridical sphere of the single enterprises considered as single legal entities for the Italian legal system.

The most relevant consequence deriving from this fact, is that single enterprises, when participating to a network, will not lose their legal and fiscal responsibilities as they are considered as autonomous legal entities. What we have more than once underlined, while analysing the advantages companies can benefit from, when entering a network of enterprises, is that they can exploit the multiple advantages of this form of aggregation without losing their juridical autonomy. It is time to make an important precision now: these advantages are applied only in case of the "networks-contracts". (As in case of "networks-legal entities", companies actually do lose their juridical autonomy, as they become part of a unique legal entity). Moreover, only those networks that have a common organ and a common fund, have the possibility to exploit the above-mentioned advantages. In case, when it does present a common organ, but the common fund is absent, companies will be



responsible only for the part of their costs and profits, which are compliant with the performance of the network's activities, and in many cases, these amounts are not easy to determine. While, when a common fund is present, all the calculations will be compliant with the part to which each enterprise has contributed to it. Only in this second case, will it be possible to benefit from the fiscal advantages provided by the Italian law. In particular, for the period 2010-2012, the fiscal advantages related to the networks of companies consisted in the fact that, the profits produced by single enterprises, will be excluded from the calculations of the taxable income, for the amount lower than, or equal to one million of euros¹²⁹. (Law 122/2010). This total amount is referred to each participant, not to the plurality of the networks' members. In this way, companies will be encouraged to invest in their network activities, and will have more probability to reach their objectives as an aggregation, rather than singularly. This will stimulate cooperation and will give a possibility of cost savings to small and medium enterprises, especially to those experiencing crises, who do not possess large amounts of financial resources to invest in their activities.

In order to benefit from these advantages, the following conditions have to be respected:

- Those amounts, representing the participation quote of each enterprise to the activity of the network, have to constitute the quotes of the income of the fiscal year, destined to the reserve.
- These amounts should be destined to the investment aimed at the achievement of the objectives coherent with the network's common program. The program itself should contain the planning of the activities necessary to realize these goals. Important instructions have to be contained in it, in order to provide companies with concrete support while utilizing the sum destined to investment. This will assure that these

¹²⁹ According to the Law 122/2010, such profits have to be invested in the common fund or the appropriate reserve, destined to the performance of the activities compliant with the objectives of the common program of the network. Only if such condition is respected, will the fiscal advantages be available for the network.



resources will be employed efficiently. An important clarification is that these results should be evident within a year.

- Those network participants, who want to benefit from the tax advantages available, should prove that the activities performed are coherent with the common program. For this reason, the program has to be revised in advance, by the organizations in charge for this activity.

The important fiscal benefit described above does not complete the list of the advantages obtainable for enterprises, when they decide to aggregate themselves with other firms under a network form. This advantage is particularly important, as it is possible to utilize it only in case of a presence of a common fund. There are also other relevant possibilities, available for both types of networks. Between these, we can find resources available for financing of networks' activities, offered by the EU, Ministry of the Economic Development, national governments, regions, and chambers of commerce of different countries. In particular, in Italy, an important organization responsible for the provision of resources for the networks is the "Italian Fund for Investment".¹³⁰ In this way, several advantages are possible for SMEs, such as the encouragement of the patrimonialization of single companies and the cooperation between enterprises. During the process of collaboration with the fund, firms can count on the support represented by human and financial resources offered by it.

One of the main objectives of the Italian Fund for Investment is not only to enlarge the total quantity of the medium enterprises in Italy, but also to maintain their typical Italian characteristics, which make them unique, and in the meantime, to enhance their innovation and competitiveness levels by increasing their flexibility through the provided support. It will, on one hand, offer them a more flexible patrimonial structure, and on the other, help them to valorise and internalize the important Italian products, at the basis of their success.

¹³⁰ The Italian Fund for Investment is an organization representing an exclusive fund for private equity, financed by the public authorities, with the aim to support single enterprises and aggregation of companies, in order to help them to pursue their goals related to the objectives of the cooperation. For more information, see www.fondoitaliano.it.



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Consequently, the fund does not offer the companies only financial, but also all the other resources necessary to pursue the above described objectives. Between these, we can find: managerial, marketing, human, strategical and network resources, vital for an efficient functioning for both single enterprises and aggregations. The crucial objectives of the Italian Fund for Investment will be possible to achieve, thanks to the presence of important professional figures in charge for the teaching and support, but also for the concrete interventions, every time when an enterprise necessity it.

The meetings of these professionals will be organized during the Board of Directors, where also the audit organs will be present. In this way, it will be possible to discuss all the relevant details related to the functions of the fund, and make the cooperation even more effective. In order to take advantage from the numerous possibilities of support, provided by the fund, it is necessary to subscribe an act of participation. Obviously, it will be exposed to the test of merit, as also to other criteria, in order to determine whether a determinant company or network, deserves support.

In the positive case, when the participation is subscribed and after the common goals have been reached, the contract of participation will be interrupted, as it has no longer the necessity to exist. However, the fund will do its best in order to guarantee a further development of its partners. Important actions of support for further development will be implemented before the interruption of the partnership, such as the attempts to help them to find the best sells channels possible.

Having provided an overview on the most important fiscal and financial advantages offered by the Network contract, it is now important to include some additional considerations on the application of such advantages. In addition, also some critical aspects of the Network contract will be included, in order to evidence the current issues the discipline presents at the moment, and the reasons why it does not result efficient in some cases.



However, despite this fact, the government has attempted to enhance the existing discipline, to clarify aspects of uncertainty, and to fill in some of the existing gaps. Consequently, the next chapter will contain the most important modifications introduced and the largest issue the discipline currently presents.

7. Progresses and issues related to the Network contract discipline

In this paragraph, the most relevant progresses achieved in relationship to the Network contract discipline within the Italian institutional framework, in the last years will be presented. Considering that the network model is relatively new for the Italian economy, many authors (Ricciardi, Cafaggi, Cardoni) have provided evidence on how it has been utilized by thousands of companies as an efficient tool to fight the crisis and to put in act their strategical projects, to expand in the national and international markets.

Several attempts to enhance this discipline have taken place (empirical data on the network contract application will be provided in the par.8 of this chapter). However, not all of the policies introduced in order to enhance the existing discipline were successful, as some of them have had ambiguous effects on it. In order to provide a summary on the most recent progresses related to the Network contract discipline¹³¹, the list of the most significant modifications related to this discipline will be provided. Firstly, to pinpoint how the discipline have developed in time and to be able to analyse both positive and negative aspects of the new policies introduced. Secondly, to put in evidence the critical points and the future perspectives of the Network contract. The analysis provided will be of fundamental importance for the evaluation of the study cases, which will be described in the Chapter 3.

¹³¹ The analysis is partially based on the framework elaborated by the RetImpresa in “*L’assetto dei contratti di rete. Nota tecnica del quadro normativo*”, updated in 2015, (pages 1-7), providing the most significant interventions related to Network contract discipline.



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7.1. Modifications implemented during the period 2012-2015

During the temporary arch of 2012-2015, many important law interventions, implemented with the attempt to simplify and enhance the already existing procedures and to try to fill in the existing gaps related to the matter of the networks, have take place. In particular, one of the most relevant interventions, aimed to solve the existing issues, is represented by the *Law N. 221 of the 17th December 2012*. This law has converted, by introducing modifications, the *Legislative Decree N.179*, of the 18th of October 2012, containing “*Further measures of intervention for the country’s growth*”, (“*Legislative Decree for Development Bis*”). The mentioned law’s main objective was clarify and to furtherly develop the technical and legislative aspects of the Network contract. In order to identify such aspects, we will evidence them with titles and provide a brief summary of the modifications implemented.

Juridical subjectivity

In particular, it has been furtherly underlined that, the implementation of the Network contract does not necessarily provide the aggregation with the juridical subjectivity. The choice of obtaining a juridical subjectivity remains an option, and not a duty of the network of enterprises. As already mentioned above (*see par. 6.2 “Fiscal and financial advantages”*), the absence of juridical subjectivity is an important prerequisite for those aggregations that want to benefit from numerous fiscal and financial advantages provided by the government. Otherwise, the presence of such advantages would have lost their importance, being they not applicable. However, despite this important fact, the choice of the legislator to furtherly restate that the network contract does not provide a juridical subjectivity, is related to the necessity of clarifying the actual uncertainty about it. The statement above mentioned has been furtherly confirmed by the Italian Revenue



Agency with the *Circular N.20/E* of the 18th of June 2013, containing a similar subject.

This first aspect analysed cannot be considered as an introduction of a completely new element, as it does not actually modify the existing discipline. However, it has contributed to improve the quality of the contract discipline interpretation, as this aspect has been subject of misunderstanding and ambiguity.

Participation to public tenders

The *Law N.221/2012* has introduced a series of important news, related to the network organizations of companies. One of these, is represented by the possibility for networks to participate to public tenders. All the modalities and procedures related to this participation have been introduced with further interventions. In particular, art. 34 and 37 of the Code of Tenders ¹³² have been partially renewed and modified, in order to include the networks into the list of aggregations admitted to participation to tenders. As we have already mentioned, also the existing procedures have been renewed.

The modification above mentioned constitutes an important element of evidence of the discipline development, as it enlarges the actual set of advantages available for the networks of enterprise. Not only can these aggregation benefit from fiscal and financial advantages proposed by the government (see par. 6.2 on “Fiscal and financial advantages”), but they can also take part to public tenders, which furtherly increases their possibility of development.

Detachment of employers.

The matter related employment procedures has also experienced significant modifications. In particular, two relevant policies were introduced. The first one is represented by the “*Biaggi Reform*”, introduced as the result of the addition of the

¹³² The Code of Tenders is a set of rules governing the discipline of public works, supplying, services and design. In particular, the art. 34 and 37 discipline the participation of the networks to public tenders and offer the description of the procedure necessary to achieve this participation.



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art. N.30 to the Legislative Decree 276/2003. This policy aimed at clarifying the issue related to the detachment of employees. This reform furtherly confirms that the detachment employees of the companies participating to the networks, finds its origins in the Network contract itself. With this intervention, the existing procedures related to the detachment have been simplified, in order to enhance the efficiency of their operational application.

“Co-employment” as a solution to the existing problems related to the treatment of employees.

The Network contract also provides the possibility to use the regime “co-employment” to manage the employees within a networks of companies. The rules and procedures applied have to be those provided by the Network contract. In the matter of fact, with the new intervention, the choice of using this or other regimes, is attributed to the autonomy of enterprises members of the aggregation. In practice, this intervention can be also added to the category of those policies aimed at clarifying and enhancing the already existing discipline, due to the initial uncertainty.

Policies related to the equity fund and common organ. Procedures related to balance sheet elaboration.

The discipline governing the amount of responsibility related to the equity fund and the common organ has been amplified. *Every year, a balance sheet has to be elaborated, compliant with the rules and procedures governing the calculus of the balance sheet of a limited corporation.*

Moreover, all the activities related to the commitment of decisions of the common fund, and compliant with the common program, are limited only to the equity fund and do not extend to other properties of the networks’ members (obviously, only in case of the “network-contract” and not “network-legal entity”; *see par. 6.2 on “Fiscal and financial advantages”*).



Formal aspects of the Network contract: introduction of the digital firm

Recently, the possibility to firm the contract digitally, or with a digital firm authenticated by a notary or similar public officers in charge¹³³ has been introduced (ref. to the Law 221/2012).

This method is now considered equal to the two traditional forms, the public writing and the private agreement (authenticated by a notary). However, there are some relevant clarifications to include. *In particular, those networks, having established an equity fund to manage their common resources and deciding to enrol themselves in the Register of Enterprises, automatically acquire the juridical subjectivity.* To do so, the contract has to be subscribed in one of the two traditional ways, or by using the digital firm. In this last case, the procedure has to be compliant with the art. 25 C.D.A. (“Codex of Digital Administration”). Consequently, the mere digital firm is not enough when the network decides to become a legal entity, as expected by the art. 24 C.D.A. However, the opinion about the introduction the above-mentioned policy is controversial, as it does not perfectly clarify the situation of the new figure, represented by the “network-legal entity”.

A further innovative aspect is represented by the addition to compulsory elements of the Network contract, for those networks, which have chosen to establish an equity fund, of *the registered name* and *the registered address* of its headquarters. With reference to the transmission of the contract to the Register of Enterprises procedure, it has been decided that this action has to be performed by utilizing a standard model, under a Decree form by the Ministry of Justice, together with the Ministry of the Economics and Finance and the Ministry of the Economic Development.¹³⁴

¹³³ The procedure related to the possibility of a mere digital form is contained in the Code of Digital Administration, in particular, in art. 24 and 25. The art. 24 states that for “networks-contract” a mere digital firm is enough to subscribe the contract, while art. 25 discipline the procedure of network establishment, in case they decide to have a juridical subjectivity.

¹³⁴ In the date 10 of April 2014, the Italian Ministry of Justice has introduced a Decree aimed at standardizing the model for the transmission of the Network contract to the Register of Enterprises. It has been furtherly



The name of the enterprise in charge for the communication of modifications of the Network contract has to be indicated in it. Once it has been communicated, the modifications will be transmitted to all the competent offices by the Register of the Enterprises. The registration of the modifications will take place in the register's offices.

With reference to the par.2.6.2 about the fiscal and financial advantages, one of the important policies introduced recently at the European level, is aimed at clarifying the requirements necessary for a network to benefit from the fiscal advantages. One of these, is the absence of the juridical subjectivity.

In practice, what we have stated initially has been furtherly confirmed by the EU and no particular modifications since that period have been introduced. This underlines the fact that the legislator decides to favour those enterprises who decide to cooperation under a network form without becoming legal entity, and only in this way they can exploit a series of advantages provided by the Italian law, otherwise they become more similar to group of enterprises or other types of aggregation.

7.2. Some critical issues

“The existing law on the Network contract is still “fragmentary and undeveloped”¹³⁵. The fact that this contract does not constrain companies and offers them the liberty of choice in many of its aspects may be intended as one of its limits.¹³⁶ Consequently, the excessive flexibility this contract offers is not

confirmed by a Directional Decree 7 of January 2015 emanated by the Ministry of Economic Development, which confirmed all the technical elements related to this procedure.

¹³⁵ Ferrari C., “*Brief Comments on the Italian Law 9 April 2009, n. 33, art. 3, co. 4-ter*”, 9th of April 2009, page 2.

¹³⁶ According to Ricciardi A., “*Le reti e le aggregazioni d’impresa*”, Finanza e gestione delle imprese Lombarde degli anni '10, Milano, 4 febbraio 2011, the excessive flexibility of the Network contract can present disadvantages in some cases. In particular, it may represent the result of inappropriate use of the contract.



always necessarily considered as a benefit. On the contrary, authors like Cafaggi and Tiacci (2012), argue that too much flexibility attributed to the network represents a limit to its development.

The main issue arising from this fact is represented by the interpretative problem deriving from the discipline evaluation. For example, the first and the most relevant one, consists in determining the extension of the Network contract¹³⁷. This happens mainly because the law related to the matter of networks permits to have two different types of scope of the network contract: the first one intended as a more “typical” contractual paradigm, and the second, as a more advanced type of organization between enterprises. This means that the relationship between these two groups of elements of the network, “contractual” and “organizational”, will vary from network to network, and the dominance of one category over the other is not always clear. For example, in some cases, companies will have to sacrifice a part of their independence to reach their common objectives, and, even though a new independent organization will not be created, they will have to implement strategies compliant with their contractual obligations.

A crucial issue of the network contract is represented by its objective, intended as “*the joint realization of a series of economic activities*” (from the definition provided by the Law 221/2012). With reference to this definition, the way in which companies perform their common economic activities can vary from a lighter collaboration, where the contract is put in act only to coordinate actions performed by each single enterprises, to a very tight form of cooperation (Zilio Grandi, Biasi, *et al.*, 2014), where members of the network jointly perform a part of a specific project related to the realization of the aim of the contract (*see par.4 “Complementarity vs similarity”*). This aspect of the network contract is not necessarily negative, as, in every situation, a different level of innovation and competitive enhancement will be reached. Some authors (Cafaggi, 2011) also

¹³⁷ Paola Iamiceli, in “*Il contratto di rete: le opportunità dello strumento tra problemi e prospettive*”, during her intervention at Assindustria di Vicenza, 2011, illustrates the major issues presented by the Network contract, underlining the dilemma between “organizational” and “contractual” elements prevalence described.



argue, how not the existing discipline on the Network contract has been created as a discipline for the networking only between enterprises, and not between enterprises and important public and private organizations, which would be vital for a more sustainable development¹³⁸ of such discipline. Beyond this consideration, some positive development are evident from our research based on study cases, which will be illustrated in the third chapter. In fact, we will see how the networks analysed have managed to achieve some strategical partnerships with organizations diverse from enterprises, such as financial institutions, charity foundations and others (*see* Chapter 3).

7.3. Issues related to the formal procedures and bureaucracy

Despite the fact that the introduction of the Network contract into the Italian juridical system can be considered successful, as it has seen a large number of applications from the beginning (Ricciardi, 2010, 2012), the fact that this discipline is still incomplete and presents a series of legislative gaps cannot be denied. In order to support companies and professionals, and to offer them a better understanding of when and how to utilize this strategical tool, many instruments were offered and organizations dedicated (*see* par. 5.1 “The most relevant formal procedures” and 6.2 “Fiscal and financial advantages”). However, even the presence of such guidelines for those who want to benefit from numerous advantages of the Network contract, does not always guarantee success, as many points are not complete and some of them encounter obstacles (mainly in terms of bureaucracy) when it comes to practice. We will dedicate this paragraph to enlist the most frequent difficulties related to the formal procedures involved.

One of the critical points of the Network contract can be represented by the distinction between networks as “mere aggregations of legally autonomous

¹³⁸According to Cafaggi F. “*Il nuovo contratto di rete: Learning by doing?*”, Reti di impresa, 2011, pages 1-3.



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enterprises” and those which want to become “legal entities”. The distinction between these two categories has been already presented in the par. 5.1 “The most relevant formal procedures”. With reference to the second case, the empirical evidence (empirical data will be illustrated in the following par.8 “Considerations about the empirical application of the Network contract”) prove that it is not always possible to establish such an organization from the practical perspective, as it may not be appropriate, for example, when an aggregation *ad hoc* has been established to achieve the objectives more appropriate for a network, not for an officially independent legal entity. This discussion also involves important considerations about the fiscal advantages, which are possible only in case of “*networks-contracts*” and not “*networks-legal entities*”. However, we have already discussed this point more deeply in the paragraph related to this subject.

A further point of uncertainty is constituted by the fact that only three mandatory elements for the establishment of a legal entity are required by the law, which are the legal name, the legal address and the presence of common fund. While the discipline for the eventual presence or absence of other important elements is not provided. In addition to this relevant problem, many other contractual aspects of network contract are unclear or incomplete. Another difficulty is to understand whether single enterprises participating to a network still remain subjected to fiscal taxes; or whether a network as a new organization (in case it has a legal subjectivity) becomes a new subject of law also for the tax application. This discipline seem to be unprecise, and some difficulties arise in practice. Such as the difficulty to obtain a VAT number for a network (*see* chapter 3, “Calegheri 1268 study case), despite this possibility is provided by the Italian law.

Other two important aspects are the relationships with employees and the risk of the contractual abuse of leader-enterprise/s. With reference to the first aspect, beyond the fact that the possibilities of *detachment* and *co-employment* are present in the Network contract discipline, the complete practical application of them presents serious difficulties in practice. Important problems related to the treatment and security of employees arise, when they are “shared” between



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different enterprises members of the network, and they are difficult to manage from the practical perspective. Consequently, more specific policies about the distribution of duties and responsibilities, tasks and fiscal obligations are required in order to more efficiently deal with these problems (RetImpresa, 2013). With relationship to the second aspect above mentioned, which is the risk of “*contractual abuse*”, it is possible that the network is established with the unique objective to realize the aims of the leader company, the one who has presented the initial strategical plan for the network project, aware of the potential benefits deriving from cooperation and the possibility of tax reduction provided by the law. It is not always possible to immediately recognize such a situation. However, a guideline about the evaluation of potential partners and possible risks deriving from cooperation have been presented in the Chapter 1 (*see par. 5* “Criteria for the evaluation of potential pool of partners”). Another useful suggestion could be to request the support of the competent professionals (such as the Network Manager) and organizations in charge, in order to prevent and avoid useless and expensive practices, risks of abuse and time expenditures which can be caused by erroneous and/or distorted utilization of the Network Contract.

Another element of issue consists in the general fact that the actual discipline governing the Network contract formal procedures, does not provide specific and complete instructions for the majority of its elements. Consequently, the largest part of decisions related to it, derive from the liberty of choice of enterprises members (Ricciardi, 2013). For this reason, a careful examination of all the variables is necessary and an evaluation of the appropriateness of this contract is advisable.

Despite the critical points related to particular formal procedures above illustrated, the major difficulties remain those related to the high level of flexibility deriving from the existing juridical gaps in the matter of networks. In particular, the lack of a precise definition of some crucial elements of the Network contract may harm the liberty of the enterprises taking part in the network, as their rights and rules will not always be conspicuous. “This may create uncertainty, raise transaction



costs, and affect the credibility and solidity of the network contract especially when it deals with third parties”.¹³⁹

8. Managerial and organizational implications

In the previous paragraphs, we have already mentioned how the existence of a strategical plan based on business objectives is considered a fundamental prerequisite for a network's successful development (Cardoni, Tiacci, 2012). Such perspective is also largely shared between international authors, such as Parkhe, 2003, et al. Moreover, authors like Johanson et al. (2008), argue how a network creation can achieve solid and long-term development only in case it represents a result of an “*engineered process*”¹⁴⁰. Usually such process arises when a particular economic actor realizes the presence of business opportunities, and performs the “triggering” role of the subject who “collects together a group of organizations” representing a “potential pool of partners for the achievement of business opportunities appeared” (Cardoni, 2012). However, in order to establish a solid network of enterprises, not only should the initial process be supported by a highly elaborated business project and a carefully chosen group of partners (*see* chapter 1, par.5 “Criteria for the evaluation of potential pool of partners”). In addition, all the further activities should represent the result of appropriate strategic management instruments' application (Ricciardi, 2003).

As the consequence of the above made considerations, the necessity to determine which strategic planning instruments and accounting procedures are the most suitable for the network model of aggregation, has become the subject of many Italian (Bastia, 1984, Rullani, 2001 et al.) and international (Porter, 1991, Mintzberg, 1994 et al.) authors' studies. In particular, these studies concentrated

¹³⁹ Ferrari C., “*Brief Comments on the Italian Law 9 April 2009, n. 33, art. 3, co. 4-ter*”, 9th of April 2009, page 2.

¹⁴⁰ Johanson M., Lundberg H. (2011), *Network Strategies for Regional Growth*, Palgrave MacMillan, page 2.



on the most relevant issues related to the above mentioned managerial and organizational gaps deriving from the diffusion of the network model. However, the major difficulty is represented by the necessity to overcome the “traditional managerial and accounting barriers”¹⁴¹, in order to efficiently manage and measure the performance of a group of different actors, joined by the presence of common business objectives. However, also motivation is an important element to take into consideration in such context, as it “highly influences the partners’ desire of cooperation”.¹⁴²

With reference to the accounting procedures and governance issues, many different models have been presented by the Italian authors, such as those based on the attempt of “hybridization”¹⁴³ of single companies’ accounting records. In particular, authors, such as Bastia, has introduced the concept of “combined financial statement”¹⁴⁴; while others (Mancini, et al. 2010), have proposed some effective solutions for the networks’ governance and performance measurement.

Some authors also argue how the “information sharing” between the members within an aggregation plays a fundamental role for its efficient functioning. Consequently, it will be one of the crucial factors to consider when evaluating the appropriateness of a governance strategy. However, in this context, to continue our analysis of the formal procedures provided by the Network contract discipline, we will not explain more deeply the mentioned strategies. Instead, we will briefly illustrate the accounting procedures currently applied by the Italian enterprises and the related institutional framework.

¹⁴¹ Cardoni A., Tiacci L., Saetta S., “Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations”, Università degli studi di Perugia, 2012, page 95.

¹⁴² Mariti P., Smiley R.H. in Buckley P.J., Michie J., *Firms organizations and contracts*, Oxford University Press, New York, 1996, page 284.

¹⁴³ Cardoni A., Tiacci L., Saetta S., “Evaluating how potential pool of partners can join together in different types of long term Collaborative Networked organizations”, Università degli studi di Perugia, 2012, page 107.

¹⁴⁴ The “combined financial statement” consists in providing each single company financial statement, which are then released together, in order to be able evaluate each company’s performance as the aggregation member, and that of the aggregation as whole.



8.1 Accounting procedures for Italian networks

To achieve the pre-established goals, a network of enterprises performs a series of activities, compliant with its common program. Being these activities fiscally relevant, an important issue is represented by determining the accounting measures to register them.

Firstly, the major distinction should be made between “*network-contracts*” and “*networks-legal entities*”. Such distinction has already been mentioned previously, being it also relevant for the financial advantages measurement. Moreover, in the par.7.1 “Modifications implemented to the Network contract discipline during the period 2012-2015” (*see* section “juridical subjectivity”), it has been illustrated how the Circular N.20/E of the Italian Revenue Agency introduced in 2013, connects the “networks-legal entities” to the category of organizations obliged to keep accounting records and to establish an equity fund (such as limited corporations). Consequently, by becoming a legal entity, a network would renounce fiscal and financial advantages attributed to the “network-contracts”, and the flexibility such case presents. Moreover, numerous legislative gaps in the matter of “networks-legal entities” are still present. Consequently, such case can represent the object of potential issues and/or controversies related to its civil law aspects (Cafaggi, 2011).

In this context, we will analyse the accounting measures related to the “networks-contracts” case, which have not been precisely defined by the existing discipline. In this case, a new juridical autonomous corporation have not been established, but the common activities’ performance is based on the Network contract, so the juridical effects of such activities will have effects on single members.

Moreover, when a particular activity can be connected to a particular network’s member, the effects of such will have consequences on that enterprise. Otherwise, when it is not possible, the network will act through its common organ. In this



case, two possibilities arise: establishing a common organ with a representation mandate (acting “in name and on behalf of the companies members”) or a mandate without representation (acting “on behalf of companies members, but in its own name”). In the first case, all the activities performed by the aggregation’s members, will affect their own juridical spheres.

For example, the network acquires a particular industrial machine; the supplier will have to issue an invoice for each network’s member, with an amount proportional to its participation to the aggregation’s equity fund. In the second case, the supplier will issue only one invoice in name of the common organ, which will later attribute the costs all the members.

This brief analysis illustrates how the Italian institutional framework still presents legislative gaps in the matter of accounting procedures. A study by A. Cardoni (2012) confirms how the procedures above illustrated are those prevalently implemented by the Italian networks, mainly because of the lack of a more developed discipline ¹⁴⁵, which would involve more innovative strategies such as those based on the “*hybridization*” of the single enterprises’ accounting records. Consequently, the major issue is represented by the attempt to utilize traditional models of accounting and apply them to complex aggregations of enterprises, as networks. The author argues how such models are not suitable, and that more innovative solutions should be provided. Such solutions should also be supported by an appropriate institutional framework.

Beyond the quality of the accounting procedures utilized by the networks, the overall results obtained by the study present a high level of commitment to “reporting and accounting”, which means that networks’ members do realize the importance of accounting tools utilization. This result is confirmed by the fact that more than 70% of the networks involved in the analysis, proved to develop annual

¹⁴⁵ According to Cardoni A., “*Business planning and management accounting in strategic networks: theoretical development and empirical evidence from enterprises’ network “agreement”*”, Management Control 3 – special issue, 2012, (pages 93-105), the a more developed discipline for the innovation of the networks’ procedures are requested. The author identifies the existing gaps related to the organization and financial procedures of the Italian networks.



financial evaluations¹⁴⁶ of their performance. We can suppose that this important factor will bring benefits in the long-term and will serve as an incentive for future innovative accounting measures development.

As our analysis started from considering both managerial and accounting procedures, in the next paragraph we will present a framework on “*relational capabilities*” development, necessary for an efficient network management, being it a set of complex interconnections of different actors. Such framework provides an overview on the two main categories of actors, usually compounding complex aggregations, such as networks of enterprises, and the most significant strategies to be able to manage the in order to obtain maximum results in terms of competitiveness and innovation enhancement.

8.2. “Relational capabilities” framework

With reference to the above made considerations about the networks of enterprises, important implications on the specific managerial and organizational competencies required to manage such aggregations of enterprises arise. Network model is being relatively new, therefore the economic literature does not present a high number of references on the type of managerial capabilities necessary. However, authors like Capaldo (2007), have already mentioned the necessity of the “*relational capabilities*”¹⁴⁷ in order to efficiently manage aggregations of enterprises such as networks of companies. This author has carried out researches on some of the successfully operating Italian networks, and has obtained significant results. In particular, he has identified these networks present two main categories of partnerships, which can be named as “*strong ties*” and “*weak*

¹⁴⁶ The above-mentioned evaluations comprise the elaboration of annual reports based on the main traditional performance evaluation measures, or the preparation of periodical financial reports.

¹⁴⁷ Capaldo A., “*Network structures and innovation: the leveraging of a dual network as a distinctive relational capability*”, *Strategic Management Journal*, Vol.28, 2007, pages 586.



*ties*¹⁴⁸. In this perspective, the “*strong ties*” are represented by the long-term solid partnerships, established through mutual investment and presenting a high level of mutual trust between the partners involved. Obviously, these types of partnerships are extremely important for the network’s development. The “*weak ties*”, however, do not have to be taken for granted, as they represent less strong, but still significant interconnections with a variety of enterprises (usually located all over the world), based on a less tight relationships’ level.

The presence of such two important categories of partnerships is key for the network’s development, as it is able to create unique and incomparable synergies which will contribute to its success. It allows to exploit the multiple external interconnections represented by the “*weak ties*” in order to “activate the virtuous circle created by the variety of perspectives, visions and sensibilities these present”¹⁴⁹. While, on the other hand, the network also profits from the innovation potential of the more solid partnerships within the aggregation, the so-called “strong ties”. However, the contemporary presence of both categories of ties within the network, also involves the necessity of appropriate organizational and managerial capabilities, in order to efficiently manage such a large and complex set of partnerships, to avoid risks and abuses, and also to keep these relations stable in time. Only those networks, having the necessary “relational capabilities”, crucial to efficiently manage both types of partnerships, will be able to obtain “dynamic sources on which to establish their competitive advantage”¹⁵⁰.

As the consequence of the above-mentioned “relational competencies” development (Capaldo, 2007), the aggregations involved, will be able to create two types of capabilities. In particular, the “*exploitation capabilities*” will be created as the result of “*strong ties*” efficient management, as these allows to

¹⁴⁸ Alberti F., Butera F., “*Il governo delle reti inter-organizzative per la competitività*”, Fondazione Irso, 2013, page 10.

¹⁴⁹ Capaldo A., “*Network structures and innovation: the leveraging of a dual network as a distinctive relational capability*”, Strategic Management Journal, Vol.28, pages 589-560.

¹⁵⁰ The statement is the elaboration of Butera F., Alberti F., “*Il governo delle reti inter-organizzative per la competitività*”, Fondazione IRSO, 2013, page 23-24.



create and develop the core capabilities for the aggregation's success. For example, it will support competitiveness and innovation enhancement, while the "*exploration capabilities*" will arise from the presence of "weak ties", as they will contribute to the enlargement of the network's variety of potential strategies. This happens mainly because such ties contribute to the creation of important interconnections between a variety of actors, continuously enlarging the aggregation's partnerships and consequently, its future perspectives.

The author Alberti (2008) also underlines how, beyond the relational capabilities vital for the network's efficient management in case of both "strong" and "weak" ties presence, two other important typologies of capabilities necessary arise.

In particular, having an aggregation already successfully established its network of partnerships, comprising both typologies of ties, it should also be able to implement efficient operational mechanisms in order to generate and absorb new resources and competencies. It should utilize and recombine them with the local competencies available, in order to "create competitive advantage based on the innovative utilization of such capabilities" (Alberti *et al.*, 2008).

Another crucial clarification made by the author, is that "not only have the network to generate and diffuse the innovation capabilities in their internal context, but they have to diffuse it in the external local context", so that also the other actors operating in it could benefit.

Summarizing, two types of capabilities will be created as a consequence of the above mentioned processes development: the "*absorptive capacity*" and the "*combinative capability*".¹⁵¹

¹⁵¹ The authors of the article "*Il governo delle reti inter-organizzative per la competitività*", Fondazione IRSO, Alberti, Butera *et al.*, (2013), provide a framework on the strategical actions necessary to obtain the two types of managerial capabilities above mentioned. In particular, in order to create and maintain its "*absorptive capacity*", the companies or aggregations of companies, will have to perform actions, such as:

- Constantly implementing new organizational policies in order to train the employees, and to keep the corporate culture updated;
- Employing qualified staff, also from different contexts and backgrounds, in order to constantly renew the management team;
- Establishing a variety of partnerships and interconnections with other enterprises, institutions, organizations and universities, in order to create a large networks of partnerships to benefit from;



9. Considerations about the empirical application of the Network contract

This paragraph contains some of the considerations about the practical application of the Network contract, obtained by analysing economic literature related to this matter, from the oldest to the most recent, in order to have a major perspective on the discipline's recent development. It is also important to take into consideration how the modifications introduced by the government and other important factors, such as the economic environment and others, have influenced the grade of empirical application of the Network contract. In order to do so, we will try to include and to briefly analyse a few of the most interesting studies about the practical success of the discipline within Italian context.

Research by prof. A. Cardoni (2010-2012).

Professor Andrea Cardoni, has conducted a study¹⁵² on the first 50 networks of enterprises, established immediately after the introduction of the Law 122/2008, in order to determine the results of this important law intervention from the management control perspective. The two major topics of his study were the strategical context in which the networks are planned and the use of strategical

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- Supporting the development of “*gate-keeping*” and “*boundary-spanning*” policies with the organization, etc. (where “*gate-keeping*” means opening towards new information, while “*boundary-spanning*”, the spanning of the knowledge in the external environment).

While, to create and furtherly develop its “combinative capability”, the enterprise or the aggregation of enterprises will have to:

- On the strategical level, configuration the decentralized decisional, informal and flexible decisional processes, in order to put together different information and resources available, to create innovation;
- On the operational level, introducing the mechanisms and procedures necessary for a better coordination of the organization's functions and the coordination between the different function.

¹⁵² Cardoni A in “Business planning and management accounting in strategical networks: theoretical development and empirical evidence from enterprises' network agreement”, Management Control Review N. 3/2012, Franco Angeli, Milano, 2012.



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instruments for programming, controlling and measuring the performance of these networks. The result of this paper was that only 32% of networks were created through structured processes. Moreover, only 26% of the involved the intervention of external institutions, in order to support the formation process. Another important conclusion is that the majority of these networks were created, because of the internal needs of the single participants, such as lack of competencies and resources. Not only have the big part of these companies used the Network contract as a potential solution to their internal problems, but they also neglected the innovation and the competitiveness enhancement purposes of this contract. However, the underestimation and the non-efficient use of the Network contract can be connected to the fact that the research was conducted during the first years of the contract introduction and to the fact that these years were characterized by the beginning of crisis for many industrial sectors.

In addition, the research is limited to the information obtainable, while a part of it remained confidential, as not all of the networks are willing to share it for study purposes. In this context, the first and the major concern of the Italian companies was to survive, and not to implement strategies for further development. Consequently, the results of the use of strategical resources for the management control of these networks were unsatisfactory. Being their structures poorly developed, there were no particular need to involve advanced instruments to control and measure the financial performance. Summarizing, this study has proved a high level of use of traditional and formal instruments in both network formation and management control, and a low level of application of more innovative instruments offered by the SBA and the Network contract. Consequently, at this stage of Network contract development, further policies were required in order to support the small and medium enterprises in their attempt to correctly implement it, in order to obtain all the potential benefits from it.



Research by Fabrizio Cafaggi and Paola Iamiceli (2011-2012).

Another important empirical research on the empirical application of the Network contract was conducted by the professors Fabrizio Cafaggi and Paola Iamiceli¹⁵³, and has led to these important conclusions: *“Very often, the cluster phenomenon is represented by a set of informal relationships between entrepreneurs”*. Consequently, the formal instruments such as the Network contract are not always used, and the intervention of external institutions is not always required. The majority of networks do employ contracts, but, also, combinations between contractual and social networks are involved very often. *“A widespread form of aggregation between companies is a cooperation model, which is closed to a social network. This type of network is quite structured and has proved to have a very high level of adaptation, at least in the sectors involved in the research.”*¹⁵⁴

Research by Antonio Ricciardi (2013).

While the two previous researches presented unsatisfactory results for the application of the Network contract, more in terms of its complete and correct application, rather than in numbers of contracts subscribed, the more recent ones, deriving from numerous researches conducted by Antonio Ricciardi, prove interesting results. Despite multiple problems and legislative gaps this discipline still presents, empirical evidence shows an increase and an enhancement of the Network contract application. In particular, professor Ricciardi underlines how the number of contracts subscribed in Italy increased since the second half of the 2011, and high numbers of its applications persisted in 2013¹⁵⁵. However,

¹⁵³ Cafaggi F. and Iamiceli P., “Reti di imprese tra crescita e innovazione organizzativa”, Il Mulino, 2007.

¹⁵⁴ The statement is the result of elaboration of Cafaggi F. and Iamiceli P., “Reti di imprese tra crescita e innovazione organizzativa”, Il Mulino, 2007, page 415.

¹⁵⁵ From the researches conducted on the number of contracts subscribed realized by the Observatory of Intesa Sanpaolo, it emerges that until the 1st of April 2013, 764 contracts of Network in Italy were subscribed, involving almost 4000 national enterprises. The contracts involve companies from the whole country. Both intra-and inter-regional networks are present.



contracts are not uniformly distributed in the country, as the majority of them are concentrated in the following five regions¹⁵⁶: Lombardy, Emilia Romagna, Veneto, Toscana e Lazio. This situation is not random, as we refer to the most industrialized Italian regions, whose areas are also characterized by a presence of industrial districts. With reference to our analysis, it is important to put in evidence that a small part of these contracts presented a juridical subjectivity. Important studies about the effects of the participation to Network contract, related to these researches, have been conducted. Evidence shows a higher performance for companies participating to networks, both in terms of competitiveness improvement and innovation capability.¹⁵⁷ The Observatory of the Network contract of the Ministry of Economic Development has also confirmed these data. In particular, the data emerged from the evaluation of the effects of Network contract application by this observatory; show the enhancement of the overall performance. Such amelioration is based on the following elements: the increase of the turnover per company, the increase of the amounts of investment, stability in terms of employability, enhancement of the innovation capabilities, arise of the activities related to internationalization.

Considered the results obtained by the analysis of the studies above mentioned, it is evident how the network discipline has seen a development in the recent years, due to the introduction of policies, which have partially improved its operational application. In particular, the main aim of these policies was to clarify some points of the already existing discipline, as some uncertainty was evident (*see* par.7.1 “Modifications implemented to the Network contract discipline during the period 2012-2015”). Moreover, as the excessive bureaucracy is often representing

¹⁵⁶ In particular, the research of the Observatory of Intesa Sanpaolo states that, circa the 80% of the total of the national Network contract were subscribed in these five regions. The data illustrated in the research also confirm the enhancement of the enterprises overall performance, in terms of profit increase, but also general capabilities improvement, in terms of competitiveness and innovation amelioration.

¹⁵⁷ Ricciardi A., in “Per vincere l’impresa farà rete”, Economy, 2013, provides some evidence on the results of the Network contract application.



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an obstacle for the contract application, the new policies aimed at simplifying the existing procedures.

In the third and the last chapter, the chosen study cases will be presented, in order to analyse the strategies implemented by these aggregations and to connect all the significant theoretical points illustrated in these two chapters to the real cases. The difficulties related to the Network contract application will be analysed, in order to evaluate the evolution of efficiency of the discipline.



CHAPTER 3

Introduction

In order to provide some empirical evidence related to the discussion contained in the two previous chapters, an analysis of the successful Italian networks case studies will follow. Firstly, as our initial aim is to prove that competitiveness and innovation enhancement of Italian small and medium enterprises is possible, such as advantages achievement in terms of costs cutting and knowledge increase, it is important to provide empirical evidence of the theory provided in the previous two chapters. Secondly, as some of the most significant European and Italian policies related to the matter of networks were included, it is important to analyse how such policies have influenced the utilization of the Network contract by the enterprises, as a strategic tool to fight the crisis.

For the above-mentioned reasons, networks of enterprises, which have utilized the Network contract and have implemented the necessary strategical activities in order to achieve advantages from cooperation, have been chosen as study cases for our analysis. Such pertains to different industries, in order to provide different perspectives, but also to prove that, independently from the sector chosen, the development achievement is possible.

In the Chapter 1 the most important advantages of the network form implementation were illustrated, while in the Chapter 2 the most relevant advantages provided by the Network contract discipline were discussed. However, it was underlined, that the subscription of such contract does not attribute to the companies all the potential advantages automatically, as the implementation of the necessary strategical instruments is required to achieve development. In the matter of fact, the aggregations of enterprises involved in the analysis have managed to create innovative and highly developed networks, each with their peculiar characteristics. Among them we can find the following elements: corporate culture based on “sharing and cooperating”, the relevance of human relations, the



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fundamental intervention of the governmental policies in some cases and others. It is interesting to analyse both their common characteristics and differences, in order to pinpoint the common elements of their success, and the peculiar characteristics each one possesses. As we will see, the composition of each aggregation is one of the most important elements determining its development, such as the characteristics of every single enterprise. However, such analysis presents some limits, as not all of the information about the networks is publicly available, and, in some cases, some of the relevant points of the analysis will not be included.

As a tool to obtain the strategical information related to the analysis, a questionnaire composed of twenty questions has been presented to the attention of the Networks. The questions were concentrated mostly on three relevant topics: network's strategical objectives, the advantages obtained from cooperation, the considerations about the choice of the Network contract.

The networks analysed are the following: Buon Gusto Veneto, Calegheri 1268, Five for Foundry and Energy4Life. Despite important differences between relevant elements compounding the chosen aggregations of enterprises, all they present some common characteristics, such as the decision to cooperate at the basis of their success. In addition, such cases were chosen because of their ability to invent innovative solutions to the existing problems, and have put in act the correct strategies to achieve positive results.

An interesting part of our analysis will be related to the illustration of the empirically demonstrated advantages and disadvantages that these networks encountered related to the application of the Network contract. As we have already partially explained in these two previous chapters, this discipline is still in development and some of its parts have not been perfectly defined yet. In the matter of fact, the "legislative gaps" presented in the second chapter, often cause some practical problematics to the enterprises involved in formal networks. However, also disadvantages have to be included, in order to be able to make some considerations about the potential enhancement of this discipline.



Firstly, a brief description of each study case involved will be presented, in order to provide some general characteristics about each network analysed. In order to furtherly justify the choice of each aggregation selected, the decision to attribute a particular title to each of the networks involved in our analysis has been taken, to underline the main reasons at the basis of our choice.

Secondly, some considerations about the managerial and organizational instruments utilized by the network in order to support their activities will be included.

Finally, some considerations above the application of the Network contract will be made, basing our analysis mainly on the results obtained by the questionnaire evaluation and other sources of information available¹⁵⁸.

1. Buon Gusto Veneto and the importance of “sharing culture”.

Network presentation.

One of the largest networks involved in our analysis, currently counting 56 enterprises, is represented by Buon Gusto Veneto. The main objectives of this network are clearly defined in its website: *“valorising the food farming products of the Veneto region, in particular DOP, DOC and DOCG¹⁵⁹, with particular attention to traditions and artisanship, and promoting the diffusion of these products by making them accessible to a large audience of consumers”¹⁶⁰.*

BGV has initiated its activities by aggregating together the firms of the Italian food farming sector, situated in the Veneto Region, in order to collect and give

¹⁵⁸ In particular, beyond the results obtained by the questionnaires' evaluation, the information available on the websites www.officinadellereti.it and www.retimpresa.it has proved to be relevant for the study cases' analysis.

¹⁵⁹ In particular, DOP states for “Protected Designation of Origin”, DOC for “Controlled Designation of Origin”, while DOCG “Designation of Origin Controlled and Guaranteed” of products.

¹⁶⁰ The above-mentioned definition of the network's objectives is the result of the elaboration of its objectives described at its website. For more details, see www.buongustoveneto.it.



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value to its original food products and bring them to the foreign markets. In particular, the informal collaboration started already in 2010, initially comprising 17 members, while the Network contract official subscription took place in 2012. However, the general strategical aim of the Veneto food farming products' valorisation is only one of the initial reasons at the basis of Buon Gusto Veneto creation. In the matter of fact, as the aggregation has reached a higher number of participants, it has enlarged its activities and added other important goals in order to enhance the competitiveness and innovation levels of its members.

Network composition.

At the moment of its establishment, in 2012, the network comprised 17 enterprises. Currently, it presents 56 members, between which there are important companies, such as: Pasta Zara, Pastificio Avesani, Pastificio Fazion, Lo Scrigno, Capponi&Spolaor, Prosciuttificio Soave, Lattebusche, Naturello, Zuccato, Biscotteria Venezia, Cioccolato Beppiani, Caffè Pedron, Az. Agricola Mazzolada, Fontemargherita, Zorzi, Geofur and many others¹⁶¹. Each of these members is specialized in a different product of the food farming industry, such that the aggregation is able to offer a complete set of the most important products for this sector. The Buon Gusto Veneto network can be defined as an “equal” network, since all of the members equally contribute to the decision process. Moreover, with reference to the par. 2 “Complementarity” vs “similarity” of the Chapter 2, the relationship between enterprises within the network can be defined as “complementary”, considering that all the actors involved specialize in different products. The Buon Gusto Veneto network can be defined as an “mono-regional” network, as the majority of companies are from the Veneto region.

The network comprises a high number of participants, very different between each other in many of their characteristics. In particular, some of the companies were established in the 1980', while another part of them is quite “young”, as they were

¹⁶¹ The complete list of Buon Gusto Veneto networks' members is available at www.buongustoveneto.it



established after 2006.¹⁶² Companies also vary in terms of profits and employees' number.¹⁶³

Partners' evaluation strategies.

For the Buon Gusto Veneto network, the choice of strategical partners represents a highly elaborated process, where all the most relevant enterprises' characteristics and the potential benefits from cooperation are carefully examined. In particular, the following steps are implemented in the partners' evaluation process:

- In order to understand whether the enterprises evaluated are “appropriate” for the network, a proper path of assessment has been developed. In particular, after a phase of initial knowing, the companies have to go through this path in order to test their appropriateness. The choice of strategical partners is one of the critical points for the network's development and its future success, placing a high level of importance on this initial phase is very important.
- In order to avoid competitiveness within the network, BGV has decided to research a different partner for each different product. This means that for each type of product, there will be only one supplier, in order to offer to the audience a large set of different and unique products. The only exception is represented by wine producers, which are currently two within the network.

¹⁶² The data on the medium age of the Buon Gusto Veneto members' are extracted from the analysis elaborated by INDIS-Unioncamere, named “Reti di impresa nel commercio e nei servizi”, Copygraph, 2013, which analyses the most important characteristics of the ten study cases, comprising Buon Gusto Veneto. In particular, the case is describe in pages 9-12. For more details, see www.unioncamere.gov.it.

¹⁶³ According to the research “Reti di impresa nel commercio e nei servizi”, developed by INDIS – Unioncamere, Copygraph, 2013, approximately the half of the Buon Gusto Veneto members achieve annual profits higher that 5 million euros, while the other half achieves profits lower than 1 million. Additionally, the first category of members present a higher number of employees, while the other ones employs less than 10 workers each.



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- To furtherly underline the uniqueness of the BGV products and to offer only excellent local commodities, the network is searching only for exclusive and high-quality products.
- Finally, to valorise the human capital, the network attributes a high level of importance to the figure of entrepreneur. In particular, the characteristics of each enterprise, such as its corporate culture, vision and values have to be aligned with those of the network. This will help to enhance the cooperation between the companies, and to avoid the eventual difficulties related to it.

As Buon Gusto Veneto has organized its proper process of evaluation which has proved to be efficient, it can be considered that the procedure of the choice of the potential partners is performed correctly, and has confirmed high results in the years of network's existence.

Strategical partnerships.

Beyond a large number of participants, the network has established almost the same number of strategical partners, which are now more than 40. In particular, such partners are involved mostly in services providing, tourism, arts and other. Between them, we can find companies, such as Banca Antonveneta, Gps Bags, Filocontinuo, Art&Co, Parco Sigurtà, Parco Natura Viva, and many others. The importance of such strategical partnerships will be explained further in this paragraph.

Strategical objectives.

As already mentioned, a network creation should represent the result of a carefully elaborated strategical plan, in order to be efficient. In particular, the importance of strategical objectives at the basis of a network establishment and the role of the “triggering” actor have been illustrated in the Chapter 1 (*see* par. 6 “Strategies to evaluate a potential pool of partners”). In case of Buon Gusto Veneto, all the



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members involved make part of a carefully elaborated strategical project, based on a number of business objectives. Moreover, the manager of one of the enterprises involved has performed the triggering “role”. Already having experience in the large distribution activities and being aware of the existing problems related to the supply of the food farming products, he has identified the Network contract as a strategical tool in order to solve the existing issues.

With relationship to the objective of the Veneto Region products distribution and promotion, the network has decided to sell its products by utilizing the “exclusive” distribution strategy. In particular, the Buon Gusto Veneto products are sold both singularly and in exclusive sets, comprising carefully chosen products realized by the network’s members. Such combinations of products are named the “Buon Gusto Veneto basket”, and are realized to propose to shops, supermarkets, restaurants, caterings and other organizations. The utilization of the *exclusive distribution strategies* furtherly confirms the uniqueness of the BGV products. In the matter of fact, the right of distribution is attributed to carefully chosen points of sale, by evaluating the benefits deriving from it. Another important strategy aimed at BGV products promotion consists in *organization of Buon Gusto Veneto “corners”* within carefully chosen supermarkets, in the particular periods of the year, in order to sell the network’s products and their particular combinations, such as the “Buon Gusto Veneto Christmas Box” and others. The aim of such strategy is to increase the image of the “exclusiveness” of the network’s product and, at the same time, to make it familiar to a larger audience of potential consumers.

A further important category of actions implemented are represented by *participation to fairs, exhibition and events*. Such activities are implemented in order to promote the Buon Gusto brand, and to have the possibility to diffuse these products and make them known to a larger quantity of people. In particular, in 2015 Buon Gusto Veneto has taken part to at least three important events, which are: Tuttofood Milano in May, Expo Milano in collaboration with Intesa Sanpaolo in September, Taste the food in Cologne in Germany in October. While



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the participation to Expo has taken place only in one day, as the guest in the Intesa Sanpaolo stand, during the other two events mentioned the BGV has presented large stand of more than 100 square metres, to demonstrate its products to potential customers and collaborations. However, also the brief participation to Expo has not to be taken for granted, as it offered BGV the possibility to reach a larger audience. Giancarlo Taglia, the Network Manager, underlines, "...such participation has proved to be a success and further efforts will be made in order to participate to such important events".

Additionally, the Buon Gusto Veneto network has also put in act many strategies related to the *e-commerce platforms creation*. In particular, it has established proper online-portals, to sell its products in the foreign countries. Such strategy confirms how the networks has managed to achieve some of its purposes related to internationalization, by sharing strategical competencies of its members, but, especially, by sharing the related expenses. The Network Manager Giancarlo Taglia has stated that the further important projects are in development in order to enhance and enlarge the online portals for the BGV brands commodities.

As evident, this network has made several efforts in order to promote its products both in Italy and abroad, also by utilizing modern technologies, such as the utilization of e-commerce in order to introduce its products in the international markets, and the diffusion of Buon Gusto brand in other regions. It has also utilized more traditional methods, such as participation to events and fairs, which have not to be taken for granted, as they also serve as an efficient tool to make their products known to a larger audience. It is important to furtherly underline that network has always been giving particular importance not only to preserving, but also to diffusing the culture of artisanship and "*Made in Italy*", which are considered the fundamentals of the Italian business.

The main difference between this network and others, which also operate in the food farming industry, is the desire to demonstrate the uniqueness of the most important Italian regions, in this case of Veneto, by offering its excellent products to public.



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The most significant results achieved by the network.

The Buon Gusto Veneto network is considered as a highly developed and innovative structure, as it has managed to achieve many of the important advantages deriving from cooperation by implementing the appropriate managerial and organization strategies. In particular, *the choice of the Network manager* presence within the network has proved to be successful, as such person represents an external and impartial actor, covering the coordination role within the network. The BGV network manager is highly involved in all the strategical processes and represents a key person for the aggregation. Beyond many important activities based on the strategical plan developed by the manager, which were already mentioned at the beginning, the manager has put in act important strategies of “co-marketing” between some of the network’s members, such as those between gastronomy and fresh pasta, roast-beef and wine. In particular, the second have achieved significant results, as 15.000 bottles of wine were sold in 15 days.

One of the major achievements of the Buon Gusto Veneto is represented by the establishment of an efficient network based on the *interconnection of “strong ties” and “weak ties”*. On one hand, the network comprises suppliers of different food farming products of the Veneto region, which perform all the fundamental activities related to the goods’ production and distribution. On the other hand, the network has established numerous strategical partnerships, with companies providing services such as packaging, telephony and others. By establishing particular agreements with the last ones, the network has managed to achieve important discounts for its members, in order to support their activities and achieve *strategical costs’ sharing*. Moreover, in collaboration with such partners, the network has managed to organize different events and extend its activities to tourism and arts industries.

Additionally, the strategical partnership with Antonveneta bank has permitted to the network to achieve important *advantages related to financing*, due to which all the network’s members have the right to obtain credit with lower interest rates.



Considerations about the choice of the Network contract.

As one of the main objectives of our analysis is to discover how the progresses and the critical elements related to the formal procedures of the Network contract discipline have influenced the functioning of the aggregation analysed, we have researched and evaluated the most crucial elements related to these procedures in case of Buon Gusto Veneto network.

Relevant for our analysis are also the difficulties related to formal procedures that Buon Gusto Veneto encountered in practice, with relationship to the Network contract subscribed by the aggregation. As we have already mentioned, many important elements are still undeveloped, or seem to be almost complete theoretically, but their practical application proves to be difficult. For this reason, we have decided to enlist and analyse the major problems related to the network enquired. These are the following:

- With relationship to the Network Contract, BGV has decided not to choose the possibility of application the “juridical subjectivity”, in order to benefit from the fiscal advantages offered by the Italian government in this case. However, the network is still obliged to accomplish some accounting practices expected by the contract. This means that, even the non-choice of becoming a legal entity still involves accounting practices related to the network’s activities. Initially, the network was supported by professional organizations such as Confindustria Verona, in the activities related to accounting records. However, with time, it has elaborated its own systems for the accounting records.
- In addition, the manager of BGV thinks that Network Contract presents some disadvantages: among them we can mention the long duration, high costs and the elevate complexity level for the annulment of participation of some partners. These negative characteristics of the procedures related to the modifications of the network contract, render the aggregations of companies less flexible, unless the network never maintains the same structure for a long time, which is improbable. However, an enhancement



of these procedures has taken place recently. In particular, we refer to the paragraph 2.8 about the progresses related to Network contract discipline. In addition, BGV has found exaggeratedly long and complex the procedure related to the annulment of participation of some members, as well as the introduction of new ones. Even though the procedures related to the communication of the modification of the contract to the Register of Enterprises may seem precise and complete, it does not seem to be true in practice. In addition, the BGV manager thinks the contract is still in phase of design, as some of its aspects have not been defined in detail yet.

- Although this difficulty can be considered more general, and cannot be categorized as pertinent to those related to the formal procedures of the Network contract discipline, the general difficulty in the research of strategical partners still persists. In particular, finding those entrepreneurs ready to share their resources and competencies in order to create a unique space based on the trust relationship, is not an easy task. Even though this problem does not refer directly to the formal procedures of the Network contract, but it constitutes the basis for the network creation. However, companies in research of partners would definitely be grateful if offered support in this extremely difficult procedure.

Beyond the achievement of important strategical purposes, enlisted above, the general aim of the Buon Gusto Veneto network is the creation of a trust relationship between all the entrepreneurs pertaining to it. By attributing the major importance to the human capital and especially to the entrepreneur figure, exploiting its resources and competencies, “cooperating and sharing”, the network has managed to achieve its fundamental objectives in terms of human capital development. A very positive side of this network is that it places a big attention to people who work for the companies’ members, as they are considered the key of their success. As the aims of aggregations, such as networks of companies, are those of a cooperation that would benefit all the participants, it is of crucial



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importance to support and diffuse such a culture within these aggregations, in order to reach higher levels of development. Only those companies, that understand this simple rule, will be able to pursue the goals of their networks, and enhance their own development; in this way, all the parts will benefit. The Buon Gusto Veneto can definitely be considered one of such aggregations.

Despite Buon Gusto Veneto has already achieved important success, and is working on many important projects, some of which have been enlisted above, the network is already thinking about new ambitious aims to pursue. In particular, the Network Manager has enlisted some of the current tendencies in the food farming industry, which are: biological food, “gluten-free” products, bread and products based on flour, vine. Moreover, the manager Giancarlo Taglia has confirmed that BGV is now working on ambitious new projects related to these tendencies. However, the most ambitious project of the network consists in the enlargement of the network to other Italian regions, in order to create the “Buon Gusto Italiano” network, comprising the most important food-farming producers of the country.

With reference to our analysis, we have provided confirmation of the Buon Gusto Veneto network’s sustainable and successful development. Being the most important elements of this network described, we can now analyse another important case study of the Veneto region, which will be presented in the next paragraph.

2. Calegheri 1268: introduction of innovative distribution channels and multiband outlet opening.

Network presentation.

The Calegheri 1268 network was initially established by four enterprises operating in the fashion industry, in particular, in the shoes sector, with the subscription of the Network contract in December 2010. The name of the aggregation is inspired by the fellowship of Venetian shoemakers, Calegheri,



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founded in the XIII century, with the objective to protect the traditions and the rights of these artisans. The Calegheri 1268 represents the first Italian network in the shoes industry. Moreover, it is located in the Riviera del Brenta zone, known as the traditional industrial district for fashion, specialized in the shoes production.

Network composition.

Three companies compounding the aggregation come from the Veneto region. In particular, Gritti s.r.l is from Fossò, B.Z. Moda is from Strà and Fausto Moda is from Vigonovo. The fourth company, Bruno Magli s.p.a., is from Bologna, in the Emilia Romagna region of Italy.

Partners' evaluation strategies.

The fact that the companies of the Calegheri 1268 were situated within the industrial district of Riviera del Brenta, has contributed to the previous informal relationship establishment. For this reason, the process of evaluation of partners' compatibility did not involve particular evaluation strategies.

Strategical partnerships.

An important event for Calegheri 1268 occurred in 2011, when Antonveneta bank entered to make part of this network, contributing to the 10 percent of the total amount of the equity fund of the network. This strategical partnership has contributed to the enhancement of the aggregation's financial situation, and has ameliorated its position in the market. The Calegheri 1268 members were very pleased to welcome such an important financial institution between its members, as they have managed to conquer its trust and to establish such a crucial strategical partnership. In this way, they have acquired even more chances to achieve their original goals and to establish new ambitious ones.



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Strategical objectives.

The major synergies of the Calegheri 1268 network are represented by the objective to develop and introduce *innovative distribution channels*, in order to promote and to sell its commodities in Italy and abroad. By aggregating, companies can share resources and strategical information, in order to exercise in common activities related to the products distribution.

In particular, one of the most innovative ideas of this network consisted in offering a solution to both wholesalers and customers, by *opening an outlet* selling the four shoes' brands pertaining to the networks' members. In particular, the strategy to achieve this aim consisted in collecting up to 20 percent of all the unsold items during the previous season, in order to help distributors to unload at least a part of them. Not only are the unsold goods being collected from the distributors, but they are also renewed and cleaned, and their packaging is being changed; in this way they are ready to be reintroduced in the market, especially in the outlet lines. This process will help to support distributors, which, in exchange, will commit to acquire the new collections for the same value of the shoes collected. In this way a double support for distributors is offered: on one hand, the problem of older items unload is solved and, on the other, the old goods are reintroduced in the market in an innovative way; this will give them a higher probability to be sold.

The outlet, opened by the network, was named "La corte della pelle" ("The leather court"). Beyond the strategical aims of helping distributors to unload the unsold products and to reintroduce them in the market, a further aim of the network consists in proving that also small and medium companies can produce excellent quality shoes, despite their accessible prices. As the manager of one of the companies members stated, "*By aggregating, also small and medium enterprises can dream big and see their dreams come true*".

The ambitious project of the outlet's creation is viewed as a great success for the networks' participants, as they could enlarge and enhance their commercial and distribution channels, and share their know-how to increase their strategical



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knowledge. The peculiar characteristic of the “Corte della Pelle” outlet, is that it can be defined as a “*Km Zero*” outlet, as the goods sold, the activities performed and people involved, come all from the Riviera del Brenta zone. In this way, not only can the network be considered as a successful aggregation of enterprises, but also as an organization, that managed to reach a sustainable development.

The most significant results achieved by the network.

Summarizing, by entering in the Calegheri 1268 network, the four enterprises have obtained significant advantages, such as:

- Creation of a common platform for raw materials’ purchase, the introduction of which has significantly ameliorated the purchase conditions and has contributed to costs and timesaving of the network members.
- Development of common communication and marketing activities, with the aim to ameliorate the promotion of the members’ products, to increase the internationalization level of them and support the process of their competitiveness enhancement.
- Common participation to events and demonstrations, such as fairs and charity dinners, with the objective to furtherly promote the brand of their members, and to enhance the general image of the networks, to benefit all the participants and to guarantee a sustainable support of the aggregation;
- A better market understanding. By sharing strategical information and knowledge, firms within the network acquired a better understanding of the market trends, elements related to the customers’ satisfaction and, in general, a higher level of awareness about the customers’ needs and preferences. Consequently, the companies have increased their market position.



- Increase of sales in terms of turnover¹⁶⁴ (the medium of sales volume is of 100 million euros for the network as whole).
- Creation of a proper system of learning and training for staff involved, which has permitted a significant amelioration of all the activities related to the network functioning. Not only has it permitted to maintain the employability of the aggregation (currently, the network counts circa 200 employees), but it has also contributed to the members' image enhancement in terms of attractiveness for employees.
- With the general enhancement involving all the major activities of the network, the number of orders has increased and consequently, this has ameliorated the general situation with the raw materials' suppliers. This process has permitted to increase of the loyalty of some suppliers, which constitutes an important proof of the network's efficient development.

Considerations about the choice of the Network contract.

With reference to our analysis of the Network contract formal procedures, the major difficulty occurred initially is represented by the impossibility of Calegheri 1286 to be attributed the VAT number. Consequently, this has inhibited all the activities and benefits related to the possession of the VAT number, so that the aggregation had to rely on establishing a consortium. Fortunately, the Network contract has seen a development with the new policies introduction, in particular the Legislative Decree N.83 of the 22/06/2012.

However, the network members think that the Network contract has some important advantages such as flexibility and the lack of particular limitations which would inhibit them to make part of such contract. On the other hand, they argue that the Network contract discipline has still to be developed. Consequently, another crucial consideration is that the network model represents an appropriate tool for Italian SMEs to overcome their difficulties and to put in act ambitious

¹⁶⁴ For more details, see www.officinadellereti.it



projects, but the national policies should support it and provide all the necessary strategical instruments. Despite the fact that, the Network discipline has experienced an important path of development¹⁶⁵ since Calegheri 1268 establishment, it still has to evolve and to be supported by the Italian government, in order to facilitate and promote the culture of cooperating and sharing between small and medium enterprises.

3. Five for Foundry: “aggregating to fight the crisis in the metal-mechanics sector”.

Network presentation.

An important example of aggregation between enterprises established by small and medium enterprises, is represented by Five for Foundry. This network was created in 2008, initially comprising five enterprises, operating in the metal-mechanics industry. The initial project was developed in the Lombardy region, comprising five companies of Brescia province, and one enterprise from Milan. For this reason, the network was named “Five for Foundry”, as it represents five companies, involved in the activities related to metal foundry. This aggregation also represents one of the first cases of a network establishment in the manufacturing sector in the Brescia province. The Five for Foundry network’s manager Vittorio Ori is known due to his particular interest in the discipline of the Network contract. He has immediately recognized the potential of this tool, and has performed an efficient application of it as the basis of the network’s success.

¹⁶⁵ We refer to the paragraph 2.8 of the previous chapter, where we have enlisted all the major progresses related to the Network contract formal procedures. This paragraph explains more in detail the evolution process related to the discipline, and the important goals achieved during the last three years. Even though the difficulties encountered by the Calegheri 1268 occurred more than three years ago, it was important to include them in our analysis, to explain the major problems related to the matter of network in each network’s case.



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Network composition.

The members of this network are specialists in projection, development and production of industrial tools utilized for the machining of non-ferrous metals, especially aluminium. Later, Five for Foundry has extended its activities also to hydraulics and electrics. Particular importance has to be attributed to the single members of the network, as they can be considered “complementary” between each other, and this particular composition is one of the major causes of the network’s success.

Five for Foundry can be considered as an “equal” network, as all the members equally participate to the decision-making processes. With reference to the framework provided in the chapter 2, (*see par. 4 on “Complementarity vs similarity”*), this situation can be classified as “complementarity with the aim of instrumental collaboration”.

The first members of the network are:

- Meccanica Pi.Erre from Bedizzole, specialized in cutting and finishing of castings.
- Co.ram from Travagliato, specialized in machines and tools for the metallurgical treatments.
- Evolut from Castegnato, specialized in industrial automation and robots.
- Meccanica Beretta Stefano from Calcinato, specialized in the development and production of the machines for robotized welding.
- Metaltecnica from Calcinato, producers of special tools for foundry.
- Foundry Ecocer from Arluno (province of Milan).

However, with time, the network has extended its membership to other enterprises, which currently are more than 10. Importantly, also four foreign enterprises now make part of the network.

Partners’ evaluation strategies.

The Network manager Vittorio Ori underlines how the partners were chosen with a particular attention to their previous experience in the sector, and their specific



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competencies. The potential benefits and risks deriving from cooperation were carefully evaluated. The assessment process has involved the evaluation of the criteria related to the companies' overall performance and their stability indicators. However, the network has not developed its proper strategy of the partners' evaluation.

Strategical partnerships.

The network has extended its partnerships to other organizations, especially financial institutions, as it has enhanced its position in the market.

Strategical objectives.

Despite the fact that strategical projects of Five for Foundry network comprised ambitious objectives for the members' development, the most important initial aim of the aggregation can be summarized as "*cooperating in order to fight the crisis*". Being the metal-mechanics industry one of those mostly damaged by the economic and financial crisis during last years, the companies pertaining to the aggregation have managed to exploit the Network contract tool as a unique possibility not only to survive, but also to obtain important advantages in order to support proper development. Not only have they managed to benefit from financial and fiscal advantages offered by the government, but have also created an environment based on the culture of "cooperating and sharing".

The most significant results achieved by the network.

From the operational point of view, Five for Foundry has managed to create an important organization based on synergies deriving from the cooperation of its members. In particular, the network's members have organized a common headquarters where the technical, executive and production activities are performed. In this way, companies can share knowledge and resources, in order to divide costs and risks, and benefit from the collaboration.



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Beyond the general performance improvement, Five for Foundry has achieved goals related to internationalization. In particular, the Five for Foundry network has established strategic alliances with four foreign enterprises, operating in the metal-mechanics sector, in order to facilitate the import and export activities. In such way, the network has obtained important advantages such as the *access to new markets*, and the *access to innovation*, related to the synergies created within the aggregation. In particular, due to the network manager Vittorio Ori, innovation in metal-mechanics sector can be defined as “*new processes and new system of performing the traditional activities creation*”.

During the years of the networks existence, Five for Foundry has managed to enhance many important characteristics of its members, and to achieve a noticeable success as a network. In particular, it has increased its profits thanks to the customers' portfolio sharing, enhanced its relationships with banks and other financial institutions as it has increased its market power and consequently ameliorated its position in the rating of “merit for credit”. It has reached important cost savings due to the sharing of tangible and intangible resources, and has managed to benefit from the multiple financial and fiscal advantages provided by the Network contract discipline.

Currently, Five for Foundry network represents a highly structured aggregation performing a variety of activities. These include production and development activities on one hand, and provision of services related to the elaboration of orders, logistics and other activities related to customer service.

Considerations about the choice of the Network contract.

With relationship to the formal procedures analysis, the network has decided to establish a common organ. The presence of such organ is considered by the Network manager, Vittorio Ori, as a “democratic organ aimed at promoting the sharing culture and mutual support”. The presence of the common organ plays a very important role in the Five for Foundry network, both in terms of coordination, financial planning and objectives' achievement measure. In



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In addition, the common program of the Network contract is perceived as an important tool, as it helps to formalize and elaborate strategic objectives of the network, and to define instruments to measure the progresses related to their achievement. The aggregation has decided not to acquire the juridical subjectivity, in order to benefit from the fiscal and financial advantages provided by the law in such case (see chapter 2, par. 6.2 “Fiscal and financial advantages”). The figure of the Network manager has also played an important role in the network’s development, as it has supported the sharing culture within the aggregation and has served as the point of reference for the network’s members.

The Network manager, Vittorio Ori, thinks that beyond the above-described advantages, the discipline of the Network contract discipline still presents some evident gaps and has to be furtherly developed. However, he also underlines how the network has not experienced any particular difficulty connected to the Network contract structure, such that create obstacles for its development. Moreover, the manager underlines how such difficulties were irrelevant. In addition, the manager thinks that the institutional support and the policies provided by the government are very important for the promotion of cooperation between SMEs, especially for companies experiencing difficulties related to crisis. However, Vittorio Ori is convinced that beyond particular business models utilized and policies provided, the main elements of the network are the people compounding it and their motivation to achieve the established objectives.

4. Energy4Life: “cooperation in the renewable energies’ industry”

Network presentation.

The Energy4Life network represent an aggregation of enterprises involved in the sector of renewable springs and energy savings, established in 2012. In particular, the companies involved are: Eco Europe, ICI Caldaie, Forgreen and



Linzelectric.¹⁶⁶ The aim of the network consists in the promotion of the renewable energy springs within industrial, commercial and residential buildings.

Network composition.

The network is composed by 4 limited corporation, all from the Verona province. In particular, two of the companies were established in the 1990's, while the other two have been established after 2006. Moreover, all the companies are similar in terms of overall performance, as each of them present annual profits higher than 5 million euros¹⁶⁷. The network can be considered “equal” and the cooperation between the enterprises is based on “complementary”.

Partners' evaluation strategies.

The network's members have already established informal relationships, before the Network contract subscription. Moreover, some of the companies were already involved in the consortia relationships. For this reason, no particular path of evaluation has been implemented, as a trust relationship between the companies has been established previously.

Strategical partnerships.

The network has established a strategical partnership with the Cassa di Risparmio del Veneto. Not only this partner contributes to the equity fund of the network, having it become a member of it, but it also offers strategical financial plans for the other members and to the network's customers.

¹⁶⁶ The list of the network members is available at www.confindustria.vr.it.

¹⁶⁷ The data about the network members' are extracted from the analysis elaborated by INDIS-Unioncamere, named “Reti di impresa nel commercio e nei servizi”, Copygraph, 2013, which analyses the most important characteristics of ten study cases, comprising Energy4Life. In particular, the case is describe in pages 12-13. For more details, see www.unioncamere.gov.it.



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Additionally, the network is working on the establishment of collaborative partnerships with the Universities of Padua and Verona, in order to commonly develop R&D activities.

Strategical objectives.

The strategical objectives of the network represent the result of a carefully elaborated business plan. In particular, the network aims at the creation and distribution of catalogues, comprising the products of each company, the common establishment of a headquarters in Brazil, common participation to fairs and events, and in general, the achievement of the costs' cutting deriving from cooperation.

The most relevant results achieved by the network.

The network has already achieved significant results in terms of cost-cutting deriving from cooperation. Additionally, it is working on the elaboration of the common catalogues and on the enlargement of its strategical partnerships with other institutions and universities. Being this network relatively young, it has not achieved the increase of its profits.

The network has already achieved positive results in terms of common participation to events, as it has already participated to four fairs.

Considerations about the choice of the Network contract.

The four companies, compounding the Energy4Life network, have decided to choose the Network contract mainly because the possibility to obtain advantages, by still maintaining their juridical autonomy. Consequently, the companies have opted for the non-choice of the attribution of the juridical subjectivity. During the process of the network establishment and the contract subscription, the Confindustria Verona and its consultants have supported the companies, offering the administrative and financial consultancy. The network has decided to establish a common organ, and the president of such organ covers the coordination and



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strategical planning role. The figure of the Network Manager is not present. However, the companies involved think that this figure may be introduced in the future.

5. Final considerations

Having provided a brief description on the four study cases involved in our analysis, several conclusions arise. Firstly, despite difference in many compositional aspects of the networks involved, all of them present numerous advantages related to the cooperation under a network model. Additionally, also considerations about the choice of the Network contract have been included, comprising all the major advantages and difficulties arising from such choice. In order to be able to make some final considerations about the study cases involved, a table containing the summary of all the most relevant results for each network will be included.

Such structure elaboration is necessary in order to highlight the most important elements of the networks analysed, related to our discussion of the two previous chapters. Moreover, the elaboration of the table summarizing the most important information about the networks will permit to elaborate a conclusion, based on the analysis of the similarities and differences such networks present. Beyond the difference in the network composition and single members' characteristic, it will permit us to identify the similarities related to the strategical objectives elaboration and the considerations about the choice of the Network contract. In addition, some information about the strategical partnerships will be also included in our analysis.



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BUON GUSTO VENETO

Network composition

56 enterprises, prevalently from the food farming sector.

Type of network

“Equal” network based on the “complementarity” relationship between enterprises.

Strategical partnerships

More than 40 partners, involved in services, tourism, arts and culture sectors.

Partnerships with financial institutions, such as Antonveneta and Intesa Sanpaolo.

Criteria for the members and partners evaluation

Proper system of potential members' evaluation, based on the assessment of the enterprises' characteristics and a further period of assessment.

Strategical objectives

Distribution and promotion of the Veneto region food farming products at the national and international levels; enlargement in order to create a “Buon Gusto Italiano” network

The most significant results achieved by the network

- *Cost-cutting advantages* deriving from scale economies deriving from cooperation and from particular agreements established with strategical partners.
- Advantages related to *co-marketing strategies* developed between the members, such as those between wine and roast-beef suppliers.
- Creation of common *e-commerce platforms* and *online projects* development.
- *Participations to national and foreign events*, such as fairs, exhibitions and dinners.

Creation of proper *systems of training for employees*.



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Considerations about the choice of the Network contract

Advantages: flexibility, fiscal and financial advantages, strategical planning and governance instruments presence, such as the “common program” and the “common fund”

Disadvantages: complexity of procedures related to the recession of members, absence of the accounting discipline for the networks of companies.

Presence of the Network manager

Yes

The Network Manager of Buon Gusto Veneto, Giancarlo Taglia, is considered to be a point of reference for all the network's members, he covers the role of coordination and strategies elaboration, and also represents the network in the external environment.

CALEGHERI 1268

Network composition

4 enterprises, involved in the fashion industry, in particular, shoes' industry.

Type of network

“Equal” network based on the “similarity” relationship between enterprises.

Strategical partnerships

Antonveneta bank.

Criteria for the members and partners evaluation

Irrelevant, as informal relationships between the companies were already established.

Reliance on the trust relationship established between the enterprises.

No proper assessment system has been created.



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Strategical objectives

Implementation of innovative distribution strategies and solutions related to the issues of unsold products.

The most significant results achieved by the network

- Opening of the “Corte della Pelle” outlet.
- Creation of a common platform for raw materials’ purchase.
- Development of common communication and marketing activities.
- Common participation to fairs and events.
- Common systems for employees’ training.
- A better market understanding.
- Overall performance enhancement, in terms of profits increase, and members’ image enhancement evident in sales increase and employees’ attractiveness.

Considerations about the choice of the Network contract

Advantages: flexibility and absence of particular limitations.

Disadvantages: complexity related to the procedures of VAT number obtaining and all the related consequences.

The network has chosen the application of the juridical subjectivity. Consequently, it is following the same accounting procedures discipline as that of the limited corporations, and cannot benefit from the fiscal advantages provided for the “networks-contracts”.

Presence of the Network manager

No



FIVE FOR FOUNDRY

Network composition

5 enterprises. However, the membership was extended to other companies, between which there are also 4 foreign companies.

Type of network

“Equal” network based on the “complementary” cooperation, “with the aim of instrumental collaboration”.

Strategical partnerships

Financial institutions

Criteria for the members and partners evaluation

Evaluation criteria based on the assessment of each enterprise specific competencies and its previous experience in the sector. Evaluation of the overall performance criteria.

No proper assessment system has been created.

Strategical objectives

- Fighting the crisis in the metal-mechanics sector.
- Common activities development.
- Internationalization in terms of import and export activities development.

The most significant results achieved by the network

- Organization of a common headquarters where the technical, executive and production activities.
- Customers' portfolio sharing.
- Access to new markets and the development of import and export activities.
- Establishment of the strategical partnerships with foreign companies.

Considerations about the choice of the Network contract

Advantages: flexibility, presence of useful instruments such as the “common program” and the “common organ”, fiscal and financial advantages. In particular,



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the “common organ” is utilized for not only the coordination purposes, but also financial accounting purposes.

The network has opted for the non-choice of the juridical subjectivity application, in order to benefit from fiscal and financial advantages provided by the Network contract discipline.

Presence of the Network Manager

Yes.

The Network Manager, Vittorio Ori, represents the point of equilibrium for the network's members and is highly involved in the network's representativeness in the external environment. The manager is highly involved in the network activities' planning, strategies' elaboration and financial measurement of the strategical results achieved.

ENERGY4LIFE

Network composition

4 companies from the renewable energy sector.

Type of network

“Equal” network based on a “complementary” type of cooperation.

Strategical partnerships

Cassa di Risparmio del Veneto, which has currently become the network's official member.

Such partner equally contributes to the network's equity fund and covers the role of financial consultant for the network members and its customers.

University of Padua and University of Verona, for the common development of R&D activities.



Criteria for the members' and partners' evaluation

No proper evaluation strategy has been created, as an informal relationship based on mutual trust has been previously established.

Strategical objectives

- Performance increase and cost cutting.
- Elaboration of a common catalogue for all the members' products.
- Establishment of a common headquarters in Brazil.

The most significant results achieved by the network

- Cost cutting.
- The network is still working on the catalogue development.
- Common participation to four fairs.

Considerations about the choice of the Network contract

Advantages: the possibility of cooperation, without losing proper juridical autonomy.

Disadvantages: the network does not mention any particular difficulties related to the contract application.

The network has opted for the non-choice of the juridical subjectivity application. For the accounting procedures, the consultants of the Confindustria Verona are supporting it.

The network's President currently develops the activities related to the strategical planning, while the Cassa di Risparmio del Veneto bank develops those related to the financial planning.

Presence of the Network Manager

No. However, the companies are considering the idea to introduce such figure in the future.



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6. Conclusion

As evident from our analysis, based on the above provided study of four Italian networks, we have managed to provide some empirical evidence on the relevant theoretical points contained in the two previous chapters. Firstly, as introduced at the beginning, the network model represents an efficient tool for the solution of the issues related to the dimensional problems of small and medium enterprises. As we have seen, many Italian companies have recognized the potential of such tool and have decided to participate to networks in order to achieve advantages in terms of cost cutting and performance increase. Beyond the presence of such general objectives, many companies have also proved to have recognized the presence of business opportunities in particular cases, and have elaborated more specific strategical objectives. In particular, “the creation of dedicated corners in supermarkets” in case of Buon Gusto Veneto, “the opening of an outlet for unsold products” in case of Calegheri 1268, “the establishment of common headquarters” in case of Five for Foundry and “the creation of common catalogue” in case of Energy4Life, all represent the result of highly elaborated strategical projects. These results obtained by our research, furtherly confirm the theoretical framework provided in the chapter 1 about the relevance of strategical objectives. With relationship to the networks’ composition, despite the differences in the networks’ members characteristics, the cooperation between the enterprises is mainly of the “complementary” type. This furtherly confirms the theoretical framework provided in the chapter 2 (*see* par.2 “Complementarity” vs “similarity”), which states that the complementary-type of cooperation usually leads to a higher performance rather than the cooperation based on “similarity”. In addition, the results obtained on the strategies utilized by the networks in the evaluation of potential members appropriateness, have showed two different results. On one hand, some of the networks (especially Buon Gusto Veneto) have



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elaborated proper systems of evaluation for the members' appropriateness, while the others have based their evaluation on already established informal relationships, based on mutual esteem and trust. In the first case, the presence of a highly elaborated assessment system can be related to the fact that the Buon Gusto Veneto presents a very high number of members and is continuously enlarging its membership. In other cases, the evaluations were based on the assessment of the firms' overall performance. In this context, our theory-base provided at the end of the first chapter (*see* par.8 "The role of motivation and trust") has been furtherly confirmed.

With relationship to the strategical partnerships' development, the results obtained show how the majority of the networks have managed to establish numerous collaborative agreements with external actors, which have significantly contributed to the networks' overall performance increase and cost cutting related to some of the networks' activities. In particular, Buon Gusto Veneto, has managed to establish a highly structured network based on numerous strategical partnerships, which have permitted the achievement of significant discounts for the network's members. Such results confirm the framework on the importance of the development of "relational capabilities" provided in the chapter 2 (*see* par. 8.2 "Relational capabilities" framework). Due to such framework, the establishment of strategical partnerships will enlarge the networks' variety of potential strategies, and its future perspectives. An interesting result obtained in our analysis, is that all the four networks involved, have established strategical partnerships with financial institutions. In such way, they have achieved financial advantages in terms of lower interest rates but also consultancy support, which has importantly contributed to the overall efficiency increase. In some cases, financial institutions have become effective members of the networks and have equally contributed to their equity funds (such as in case of Calegheri 1268 and Energy4Life).

In terms of learning and innovation enhancement, the networks involved have managed to achieve significant results in terms of scale economies and learning



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economies related to cooperation. In particular, the majority of them have managed to create innovative solutions for the existing issues and to innovate their products and production processes. The examples can be provided by the Buon Gusto Veneto creation of exclusive products combinations, the Five for Foundry innovation of the operational processes, the Calegheri 1265 innovative distribution strategies implementation and the Energy4Life elaboration of common catalogues. The networks have also managed to create proper systems of employees training, and in such way, have enhanced their image in terms of employees' attractiveness. Such evidence confirms the framework on the common training activities development, presented in the chapter 2 (*see* par. "Competitiveness and innovation enhancement"). Additionally, the Energy4Life network has established collaborative agreements with universities, in order to develop common Research & Development projects.

With relationship the Network contract discipline analysis, many important results were obtained. Firstly, the majority of networks have chosen such contract to formalize their collaboration mainly because of two reasons. On one hand, the Network contract provides a high level of flexibility and numerous advantages, while, on the other, it permits the companies to maintain their juridical autonomy. Moreover, such contract does not present any particular limitations.

As expected, the majority of networks have opted for the non-choice of the juridical subjectivity. In such way they can benefit from the fiscal and financial advantages offered by the discipline (*see* par. 6.2 "Fiscal and financial advantages"). However, as we have underlined, such case also presents some disadvantages, such as those related to the uncertainty on the implementation of accounting procedures related to the networks' activities. For this reason, the majority of the networks involve the support of external consultants or institutions. On contrary, the majority of the networks have opted for the choice of the "common organ" establishment, considering such organ an efficient tool for the coordination and problem solving. Similarly, the presence of the "common



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program” is viewed by the majority of the companies as an efficient tool for the elaboration of strategical planning and business objectives’ definition.

Beyond the above-mentioned advantages, the majority of the networks’ analysed have identified some difficulties related to the application of the Network contract formal procedures. In particular, Buon Gusto Veneto has mentioned the complexity of the procedures related to the members’ recession, while Calegheri 1268 has explained its initial difficulty in the VAT number obtainment. Moreover, all the networks agree that the Network contract discipline still presents some gaps, as some of its elements have to be furtherly developed.

Two of the networks analysed involve the presence of the Network manager, and have evidence the importance of such professional figure for their development. Not only is the Network manager highly involved in the strategical processes, but he also covers the important role of the network representation in the external environment.

Finally, the majority of the networks have revealed high attention to the figure of *entrepreneur* and to the importance of the people in the inter-firms relations. In the majority of cases, activities aimed at employees’ motivation increase and the trust between the members establishment were implemented, being such elements considered crucial for the network efficient development. As the Network manager of Five for Foundry has stated: “Beyond the business models implemented and the institutional support provided, considered are crucial for the network’s development, the fundamental importance has to be attributed to the people within the network”.



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