

# The Importance of Network Contract Model for SMEs` Growth. The Case of an Italian Region

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## Abstract

*Aim:* The aim of this paper is to analyze the strategic validity of Italian network contract in order to define a new business model for contemporary enterprises.

*Methodology:* The research method is deductive-inductive with a multi-method approach. The sources are collected through semi-structured interviews and open sources, scientific books and papers, and sectorial database.

*Findings:* The present research is the first step taken in conducting an extended study on a territorial, regional, and national level.

*Limitations:* Research limitations are based on the restricted data used in the present phase of the work.

*Implications:* The paper aim at integrating existing literature for academic community and decision makers.

*Originality:* The research represents essential characteristics of Italian network contract, by emphasizing its framework and validity, in order to recognize an innovative business model in increasing the enterprises competition in the market.

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**Keywords:** Business networks, business model, competitiveness, value creation, small and medium enterprise

## Introduction

The major composition of Small Italian Enterprises is very small. It is a concrete limit for the competitive dimensional development in both domestic and international markets. Some factors that determine the non-dimensional growth of micro and small Italian enterprises comprises of a strong family governance, the difficulty of operating in markets, the strong presence of large companies, and a high tax burden that discourages growth.

The introduction of the Contractual network (Italian Finance Law for 2009), implementing these lines of action (Ministry of Economic Development, 2010), has been pushed based on reflections of the effectiveness of the instrument parts. However, this is mainly based on the difficulties of Italian enterprises to leave small size and family structure for a different system. In the presence of these barriers, the Italian entrepreneurial system has created, in some areas of the country, industrial districts, an informal network of enterprises that are concentrated in a common area. This has helped reduce the constraints connection with the small size. In recent times, industrial districts have expressed their inadequacy to new forms of market and international competitiveness.

Subsequently, one of the main advantages of industrial districts is represented by territorial proximity. Today, this aspect has become less important, thanks to new technologies, in the production and communication sector. The reduction in shared territorial advantages, favors the search for partners in more distant areas. In addition, the benefits of addressing a large number of enterprises which create network relationships, however, were accompanied by higher gains from different territoriality of belonging.

The paper focuses on the topic of enterprises aggregations and through investigation of field, qualitative results were obtained based on the operation and validity of network contracts.

### **Literature Review and the Normative Framework**

The network contract can be defined as a signed agreement by several enterprises. Together, it serves as economic activities which has established (Cafaggi, 2009; Villa, 2009) and placed one or more common goals through the formalization of their union with a contract.

From a general perspective, the network contract is considered as an instrument or organizational model capable of conditioning, as well as ascertaining the transaction costs and the business performance (Amit & Zott, 2007).

Based on the perspective of the enterprises network (Soda, 1998), the aggregation of multiple entities is one of the sources of competitive advantage as opined by Gulati and Gargiulo (1999). Therefore, it represents an entity that competitors cannot imitate fully. The network of direct and indirect relationships of corporate network dynamically regenerates the basic resources of the collaboration among companies. On one side, it is active between enterprises and on the other side, stakeholders. Furthermore, valuing intangible resources which are essential to competition in the market (Porter, 1987) aims to create value in the long run.

The signing of the network contract allows enterprises to develop relationships that are based on the exchange of information, ideas, and

knowledge (Granata, 2016). In addition, it is designed to improve production processes and / or the provision of services.

Despite the existence of multiple forms of aggregation, including the industrial district, especially rooted in traditional sectors such as manufacturing, or the Made in Italy (Rullani, 2012), the network contract exceeds some limits of traditional network models. Hence, this includes the possibility of extending the business beyond the territory on which the network operates.

The signing of the network contract (ex law 33/2009) involves the objective fixation that lays the participating companies beyond the legal form taken by the aggregation of the contractual content, registration of the contract procedure, and the network that concerns the Registration of Italian companies. They are also provided tax incentives for the undertakings participating network through the joint operation of one or more economic activities included in their corporate objectives.

Participation in the network contract is open to different types of companies and business activities (Law 99/2009). It is disciplined, and it also involves the responsibility of the network and the state of perfect patrimonial autonomy. The law n. 122/2010 regulates the essential normative content of the network contract. This is with particular reference to the object, property, governance, withdrawal, and the melting.

In particular, the object of the network contract refers both to the joint practice of the activities performed by the companies participating in the network. It also refers to both the forms of collaboration taken with the aim of exchange of information and performance.

In addition to the shape assumed by the underwriting business (sole proprietorship, limited liability companies, partnerships, associations, research centers and universities, private institutions with public roles, artisans, merchants and professionals), the network contract must be fixed with the strategic objectives. It must be defined as the network program in terms of rights and obligations of the enterprises and the way to achieve the common goal of creating the equity base (Cafaggi, 2009).

The constitution of the capital fund is optional based on the establishment of a network of joint body with powers of management and representation of the network. The possibility of early termination by the entrepreneur has been expected with uniqueness of the ordinary and extraordinary contributions to the dissolution of the network. In contract, it also serves as an obligation on the part of the entrepreneur who withdraws to complete execution of the tasks included in the contract. In addition, it supports the fulfillment of obligations after termination or dissolution.

## **Research Methodology**

The research approach is based on analyzing territory which intends to prove the valence of network contract at regional level, integrating the national context of the overall research. Through a deductive-inductive approach, data collection and interviews conducted at the regional level was introduced. This was done in order to contribute to enrich the existing literature, both in the perspective of a better conceptualization of the underlying principles of the network contract and to integrate the literature into the topic.

Therefore, it pays particular attention to the following aspects:

- The characteristics of the network contract and its application in the Campania region;
- The comparison of the characteristics of the network contract with the principles of business models;
- Its validity based on its territorial level.

As recommended by Woodside (2010), the collection of information was carried out through a research agreement that requires the processing and transfer of data. More precisely, the research agreement includes the following steps:

1. It defined the objective of the research by means of a summary document;
2. Next, the procedures for the collection of data have been defined through fixing of information sources and research questions. In particular, the working group was involved in the definition of how to access information, including the times and the rules for determining the interviews. A backup system was provided for the data in order to cope with unforeseen events;
3. Guidelines for preparing a report of the search results in a territorial level. Also, the provision of the essential points of the narrative format of the project was defined.

Furthermore, data acquisition was carried out through a multi-method approach that allows one to get the information from the following sources:

- Semi-structured interviews and questionnaires with the aid of electronic equipment;
- Public sources and newspaper articles to interpret the validity of the network contract;
- Platform of chambers of commerce SIRI for network contracts;
- Database consultation Unioncamere – Infoimprese;
- Articles and scientific books.

Consequently, the interviews have involved the presidents of most of the representative of local organizations of the Campania region. This is aimed at understanding the importance of the Network Agreement as follows:

- President of Campania Industrial Association;
- President of Naples Chamber of Commerce.

The validity of the results described in the case study is based on data triangulation approach, or the comparison of different types of information collected and compared to the sources used.

### Empirical Results

#### Analysis of Network Contracts

A few years since the introduction of the network contract, our registration was upward overall in the formation of business networks by contract.

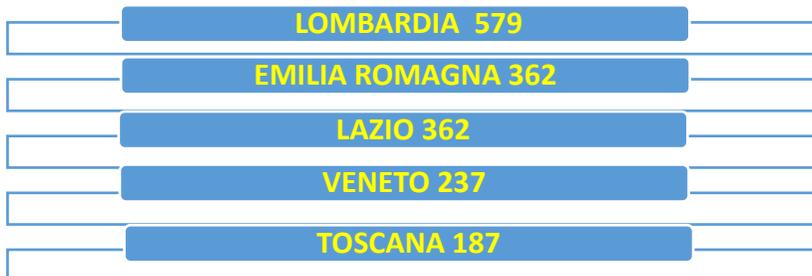
The network contracts signed in Italy, according to Unioncamere (www.piattaformasiri.com) data updated to December 31, 2015, amounted to 1,884 (of which 206 with legal subjectivity) and it involves the entire national territory at the regional level (20), which is provincial (105). The enterprises involved in network contracts are 9,812 which are divided as follows (Table 1):

| Legal form                       | N° Enterprises                                   |
|----------------------------------|--|
| <i>Corporation</i>               | <b>6.209</b><br>di cui 5.356 srl e 853 spa       |
| <i>Partnership</i>               | <b>1.369</b><br>di cui 714 snc, 521 sas e 134 ss |
| <i>Proprietorship</i>            | <b>1.287</b>                                     |
| <i>Cooperative Society</i>       | <b>755</b>                                       |
| <i>Other forms of enterprise</i> | <b>192</b>                                       |
| <b>Tot.</b>                      | <b>9.812</b>                                     |

Source: Unioncamere on Infoimprese data

According to the survey of Unioncamere data of December 2015, which lists regional sectors and the number of enterprises that have signed network contracts noted in December 31<sup>st</sup> 2015, the first few Italian regions in terms of quantity of network contracts are (Figure 1):

Figure 1 The first 5 Regions for network contacts stipulated



Source: Unioncamere on Infoimprese data

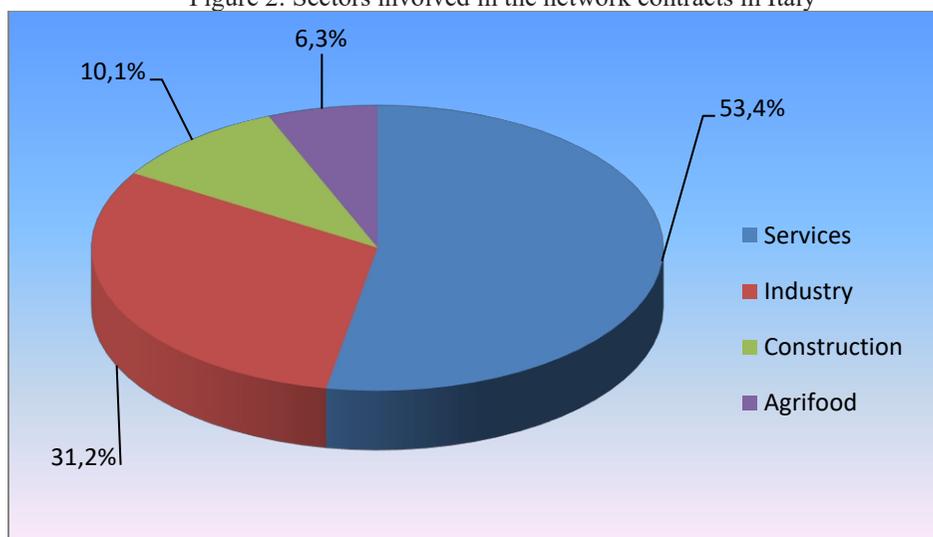
Therefore, the main sectors that constitute this phenomenon, at the national level, are the services and industry. In the last place, the food industry is placed at the national level, while Campania corresponds to just over 20% of the total.

If the size of the enterprises involved in network contracts tend to be small on one hand, as illustrated in the document of the 5th Observatory Intesa-Sanpaolo (four over five are small), an important aspect is to improve the competitiveness of manufacturing companies on the other hand (Nahm et al., 2004). This, however, is due to the subscription of the network contract (the form of export, quality certifications and so on).

The sectors that were involved in the model of the network contract, according to Unioncamere data, were reported below as a function of their representativeness (Figure 2):

- Services 5,140 (52.4%) includes wholesale trade, business services, ICT, tourism, education, health care, transportation and logistics, publishing, retail trade, money and financial brokerage;
- Industry 3,066 (31.2%) includes automotive, metallurgy, metal products, mechanical, fashion industry, electronics, electrical engineering, precision engineering, products and construction materials, utilities, printing, chemicals, other consumer goods;
- Construction and real estate 983 (10.1%) includes buildings, real estate, and activities of architecture and engineering;
- Agri-food 623 (6.3%) includes agriculture, food and drinks.

Figure 2: Sectors involved in the network contracts in Italy



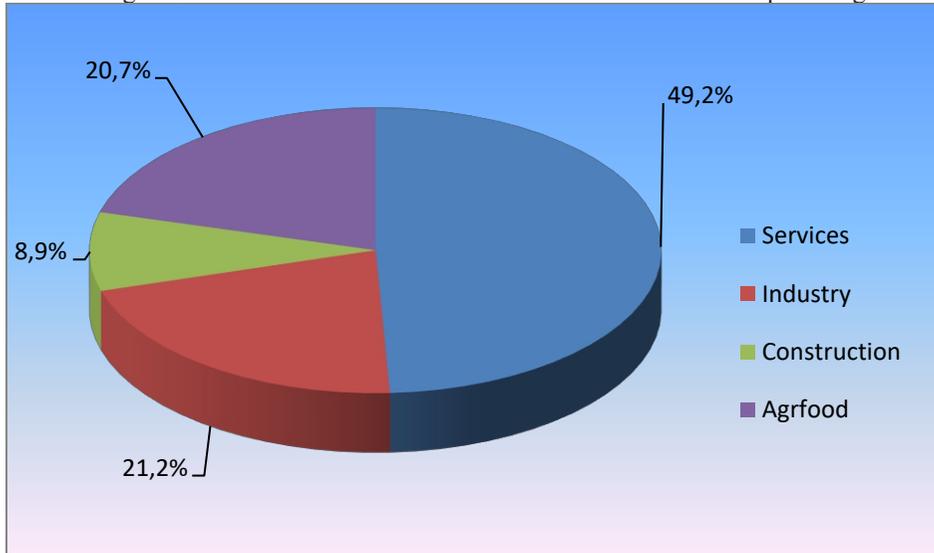
Source: Unioncamere on Infoimprese data

In Campania, the sectors affected by the subscription of 111 network

contracts, involving 403 enterprises, are represented in the following figure based on their representativeness.

Also, the sectors concerned by the model of the network contract in Campania are the services (49.2%), the industry (21.2%), the agri-food (20.7%), and construction and real estate (8.9%).

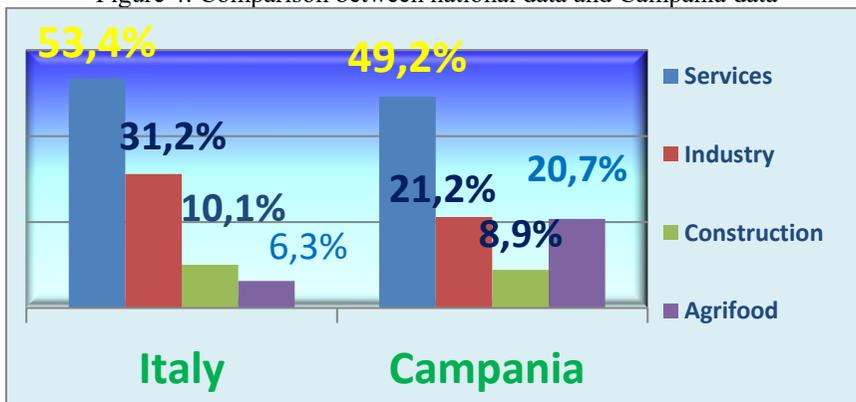
Figure 3: Sectors involved in the network contracts in the Campania region



Source: Unioncamere on Infoimprese data

In Figure 4, we made a comparison between National data and Campania data. It shows a strong difference especially in the agri-food sector where the national data is 6.3%, while the Campania network contracts in this sector amounted to 20.7% of the total.

Figure 4: Comparison between national data and Campania data



Source: Unioncamere on Infoimprese data

## ADVANTAGES AND RISKS OF NETWORK CONTRACTS

### ADVANTAGES OF THE NETWORK

The goal and aim of the network contract is undoubtedly, for the members, to get benefits and facilitations from the network. The main advantages that can be achieved through adherence to a network contract are the reduction of financial needs and cost containment. The network also highlights the specific skills of each partner. As a result, every company participates in contributing what best they can. This is in a bid to obtain a better use of economies of scale which results in an overall reduction in operating costs compared to the situation whereby a firm is working alone.

### RISKS AND LIMITATIONS OF THE NETWORK

The business network also has risks:

- The businesses network depends on the leader; when the leading company goes into crisis, it has a significant effect on the economic and financial status of all enterprises that follows;
- Differences between the objectives and the contributions made by the different partners that can compromise the stability of the network;
- Difficulty in the coordinating and control of partner activities. Decentralize activities can result in a loss of know-how which makes it difficult to get back.

### ANALYSIS OF NETWORK CONTRACTS IN THE CAMPANIA REGION

The Siri database ([www.piattaformasiri.com](http://www.piattaformasiri.com)) of Unioncamere data shows that the network contracts, in which companies are involved and which totally belongs to Campania, amounted to 35 and involve 110 enterprises as at December 31<sup>st</sup> 2015.

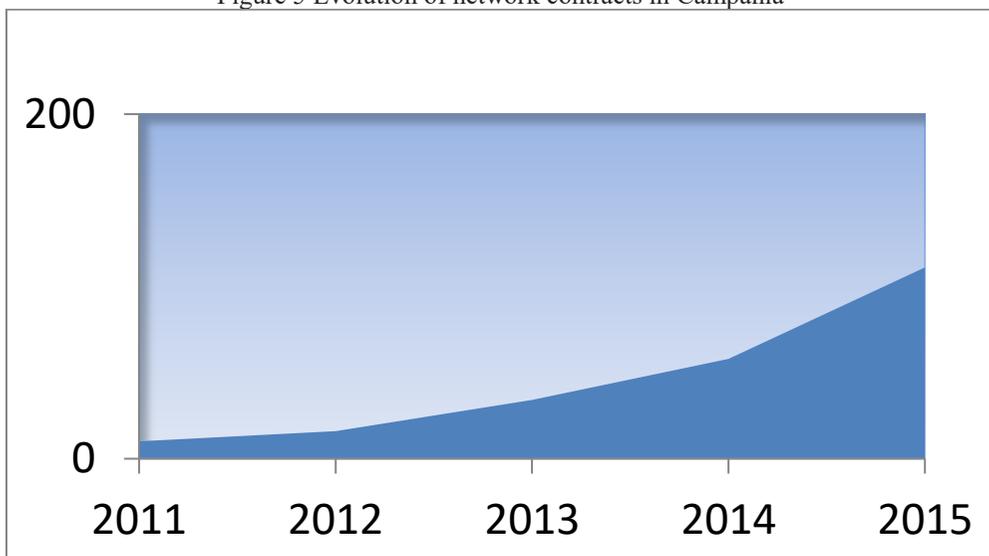
Among the enterprises that have signed the network contract, in the provinces of the Campania region, on 111 contracts that involved 403 enterprises, 149 was located in Salerno Province, 143 in Naples, 58 in Caserta, 30 in Benevento, and 23 in Avellino (Table 2).

Table 2 Total enterprises that have signed network contracts by Province

|                 | Enterprises of the Province involved in network contracts. |
|-----------------|--|
| <b>Campania</b> | <b>403</b>   |
| Salerno         | 149  |
| Napoli          | 143  |
| Caserta         | 58   |
| Benevento       | 30   |
| Avellino        | 23   |

*Source: Unioncamere on Infoimprese data*

Figure 5 Evolution of network contracts in Campania



Source: Unioncamere on Infoimprese data

Depending on the year of establishment of the networks, the growth rate and the use of the network contract instrument has the following values:

- In 2012 compared to 2011, network contracts increased more than half (going from 10 to 16 contracts with 36 enterprises involved);
- In 2013 compared to 2012, network contracts increased more than double (from 16 to 34 contracts, involving 120 enterprises);
- In 2014 compared to 2013, the subscription of network contracts has risen sharply (from 34 to 58 contracts, involving 184 enterprises);
- In 2015 (as at December 31) compared to 2014, network contracts signed almost doubled (going from 58 to 111 contracts, involving 403 enterprises).

## THE INTERVIEWS AND ANALYSIS RESULTS

In summary, the results of interviews with the presidents of Naples Industrial Associations and Naples Chamber of Commerce show that there is a general tendency to positively evaluate the network contract model and interpret it as an opportunity for contemporary enterprises, particularly as a strategic tool for the growth of small businesses in Italy, but especially for internationalization.

The key activities, according to the President of Naples Chamber of Commerce, for the revival of the province are manufacturing maintenance. This, however, is followed by the tourism sector and reception, services, and culture.

Based on the results of the interviews, the model of the network

contract seems to qualify as a development model for companies and is consequently regarded as a contemporary business model.

### **Managerial Implications and Future Research**

On the basis of earlier represented considerations, the research aimed at collecting data concerning network contracts in Italy and in Campania region. This is the first phase of the research to be extended to the whole national territory over time, so as to have a temporal analysis on trends.

From the literature related to business models and network contract, including brief analysis at national and local level, the following reflections were made:

- Normann (2001) recognizes the business models in three dimensions (internal, external, and the offer of the enterprise). In this perspective, the network contract implements these requirements relying on collaboration between companies and their knowledge (internal factor). The offer of differential products and services compared to the single company, due to the combination of several enterprises (offer), reach goals that individually would not be possible to pursue. With the aim of creating value, it turns to the market and, therefore, to stakeholders otherwise unreachable (external factor);

- If the business model is born from the elements that enterprises have in common (Lai, Weill, & Malone, 2006), the network contract would be based on the need for more companies to cooperate and collaborate on the basis of their skills, ideas, and information and knowledge to achieve common goals.

Territorially, the validity of the network contract is demonstrated by two dimensions:

- The rate of growth and use of the network contract, basically growing;
- The results of the interviews show that the network contract is considered an opportunity for businesses and for the growth of competitive advantage, in the perspective of creating value. The network contract is regarded as a model of development and, therefore, a business model.

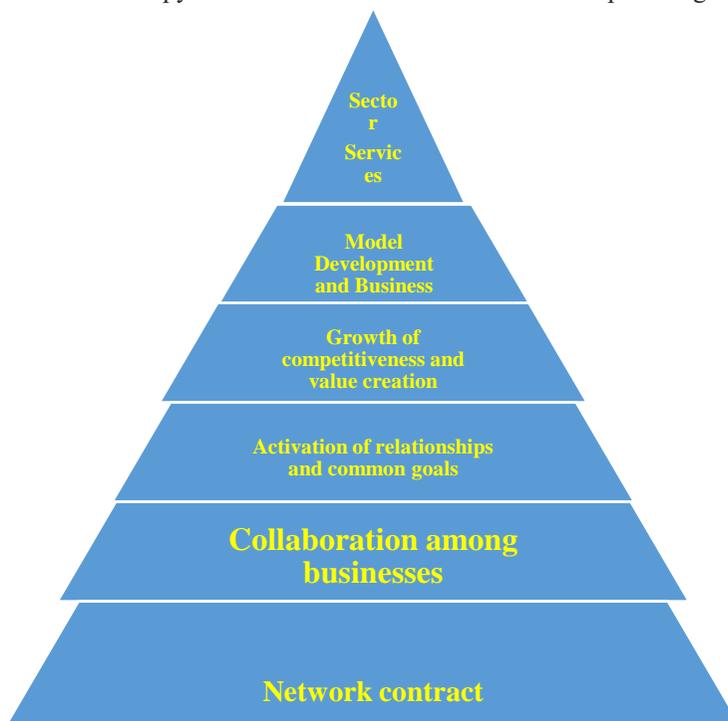
From the characteristics that the network contract takes in Campania, it is possible to infer further that the most important sector is services (about 50% of companies that have signed contracts in Campania), as stated by Unioncamere data.

In summary, the valence of the network contract, at the regional level, can be represented by the proposal from the Co.Re.Ca pyramid (Figure 6). This proposal by the framework of the network contract (object, governance, and capital fund) exposes a logical path based on the main characteristics of the networks under contract former law 122/2010.

Therefore, the framework of the network contract, the collaboration

between the enterprises, the activation of relations and the establishment of common objectives, the enhancement of competitiveness and value creation, the recognition of a model of development and business, and the prevalence of companies in network contracts operating in the service sector in the region of Campania are the elements of a territorial network contract. In addition, these elements need to be checked on time in order to demonstrate the value and to recognize additional properties to be included in the Co.Re.Ca. pyramid.

Figure 6: Co.Re.Ca pyramid for network contracts in the Campania region



*Source: own processing*

Although the study conducted so far is configured as the first step of a wider research, the main limitations of the research are reflected in the size of the data analyzed.

At the regional level, we proceed with the system of interviewing businesses/entrepreneurs who have set up network contracts. In addition, starting with the establishment of Co.Re.Ca pyramid, future research is oriented towards the building of additional pyramids of Co.Re.Ca series. Through this, we can synthesize the main elements of the analysis that was conducted.

A final element worthy of future attention is the number of contracts that has never been activated. During the execution of this research, it was

frequently found that a number of contracts in the Naples Province are in the databases but, for various reasons, have never been activated. Thus, this phenomenon could be a future starting point for a research expansion.

## **Conclusion**

From the data above, it is very obvious that we are facing a major phenomenon for businesses. This is configured as a complex system by which the network contract, with multiple objectives and functions, requires specific skills for managing it.

One of the first data that emerges from the research is given by the level of specialization of networks. The largest number of enterprises was involved in network contracts at national level and operates in manufacturing in Campania that primacy belongs to the network of services contracts. Here, this sector is regarded as the first with about 50% of contracts concluded on the total region. Another area of great interest in Campania, for network contracts, is the agri-food and this sector represents just over 20%. The Italian data for this area is approximately 10%.

The objectives of the study (considering the market conditions, the level of technology, the financial structure of small and medium-sized enterprises) from Campania that compels entrepreneurs to enter into network contracts are:

- Networks of improving production processes, with the aim of improving production efficiency and to acquire and/or develop technological solutions useful to partners;
- Networks for the realization of promotional activities in Italy and abroad, through the organization of events, coordination of the communication of the companies belonging to the same sector, and the design and development of collective brands;
- The protection and commercialization of local products through promotion and marketing activities of food products connected to a specific territory. Falling into this area, the networks were also established for the purpose of the promotion and development of tourism;
- Networks for the integration of the supply chain, promote different but complementary products belonging to the same production chain, as in the case of mechanics;

Consequently, one of the purposes by which it is working to aggregate several entrepreneurs in Campania to the internationalization, and represented by a considerable number of network contracts, is still very small. The reasons can be identified based on the conception that the internationalization strategies are still far too complex and difficult. This is seen most especially for micro and small enterprises, or because many prefer to follow their own strategies without their involvement and interests to

share with others enterprises.

In conclusion, it can be said that adherence to a network contract helps to reduce the fragmentation of the system phenomenon - albeit indirectly - and the chance to use skills without changing the corporate structure. Moreover, participation can improve and increase market opportunities made available to businesses, although it is smaller in size. In fact, qualitative survey showed that among the main gathering grounds, they are connected to those of a commercial nature and the ability to be the favorites to position itself in international markets.

Last but not the least, it is of minor importance in regards to territorial delimitation of networks. Most of the contracts were concluded between businesses located in the same territory and only rarely beyond its regional base. The territory must certainly be seen as the starting point of a network with the result that the network contracts should, as far as possible, always try to encourage more collaboration networks and long knowledge networks.

The composition of the networks presented in Campania is particularly focused on improving and optimizing the processes of distribution, marketing, and internationalization.

This means not only does it support the export business, but found, thanks to the aggregation network, the most innovative and complex forms of entry of firms into foreign markets.

Specifically, the enterprises of Campania participate in the network contracts for the following objectives as listed in decreasing order of preference:

- The aim of improving the marketing and internationalization;
- The aim of improving research activities for innovation and technology transfer, through strong collaboration between enterprises and research organizations;
- The objective to set up a collaborative team approach to search and select calls for a tender use of public funds based on regional, national, and European competitiveness and innovation;
- The objective of exchange of know-how, trade, and distribution with other enterprises outside the territorial scope.

Therefore, the goal at the base of the research seems to be reached. The network contract, although very young, is definitely a strategic tool for the growth of enterprises while maintaining the structure and efficiency of small and large businesses. Additionally, objectives such as internationalization, technological innovation, sharing of services, being inaccessible to small businesses can be achieved by businesses only through an aggregation tool.

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