



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

PRELIMINARY DRAFT 15.05.2015

Innovating rural resources governance through new policy instruments: the case of “network contracts”.

Laura Secco¹, Chiara Abatangelo², Elena Pisani¹, Diego Gallo³, Davide Pettenella¹, Paola Gatto¹, Riccardo Da Re¹, Enrico Vidale¹

1 – Dipartimento Territorio e Sistemi Agro-Forestali (TESAF), University of Padova

2 – Dipartimento di Diritto Privato e Critica del Diritto, University of Padova

3 – ETIFOR,, spin-off Università di Padova

Contacts: laura.secco@unipd.it, chiara.abatangelo@unipd.it

ABSTRACT

➔ *to be completed*

1. INTRODUCTION

Social innovation and related new governance mechanisms - based on the creation of new relationships and novel forms of collaboration among economic actors - are acquiring at European level a role of paramount importance as determinants of sustainable growth and development. The interest of policy makers towards the role of these intangible (but crucial) factors of the production process is growing also within agriculture and forestry sectors, as well as more in general rural development. In the next years, for example, the new rural development measures defined by EU Rural Development Programme 2014-2020 (namely, those designed by art. 35 on cooperation) are expected to provide financial support to facilitate the creation or consolidation of these kinds of collaborative and network-based relationships among actors working in rural areas.

While formalized approaches to increase public-private cooperation have been implemented since many years in Europe within the EU LEADER program, in Italy, since 2009, a new type of formal collaboration agreement, the so-called “network contract”, has been established. Its main goal is to support small- and medium-size enterprises (SMEs) to associate and become more competitive in global market. In establishing these contracts, the interested companies must design a long-term program of continuous improvement, where annual objectives must be jointly pre-defined in connection with the two overall goals of “innovation” and “enhanced competition on the market” of all network participants. Network contracts are considered as a *tertium genus* between market (based on pure exchange) and hierarchy (based on organisational contracts) (e.g. Powell, 1990; Cafaggi, 2008). In European context, such a kind of contracts might have a relevant role in enhancing coordination capacity among partners, building up critical masses of producers/traders oriented towards a common strategic goal (thus having more power on globalized market), in the meanwhile maintaining each partner’s independency. While in 2010, only 25 network contracts were registered in Italy, in few years their number have grown more than exponentially - 2,151 by 4th of May 2015, involving approximately 10,765 businesses (Infocamere, 2015).

Despite it seems to be a promising new policy instrument to operationalize social innovation and create inter-sectoral networks of economic actors and public administrations, thus

enhancing governance of natural, social and human resources also in rural areas, little is known so far about potentials and challenges of applying network contracts in agriculture, forestry and rural development domains. For sure, being our primary sector characterized by a predominant SME-based structure, and the network contract legislation having introduced in 2012 some facilitation for agricultural enterprises, this instrument is likely to spread also in these fields of application.

Our paper aims at: i) presenting a theoretical and conceptual framework drafting the links among social innovation and network governance underline concepts, included social capital, social networks, coordination/collaboration, resilience and adaptation to new societal challenges; ii) describing in detail the new form of contractual agreement called “network contract”, illustrating how and why it can be seen as a potential powerful instrument to enhance collaboration among actors in rural areas and create network governance mechanisms and thus social innovation; iii) comparing the network contracts with the existing other forms of collaboration among entrepreneurs, with a special focus on Local Action Groups (LAGs) under EU LEADER program; and iv) discussing potentials and challenges of implementing this new policy instrument in agricultural, forestry and rural development in general, highlighting differences with other forms of aggregation (like LAGs). In particular, starting from some existing examples related to non timber forest products production and commercialisation, our paper aims at exploring positive and negative aspects of its applications in the case of forest and agro-food products value chains and payments of ecosystem services (PES) schemes.

The paper is structured into 5 main sections. A part this Introduction (section 1), we explain our research methodology in section 2, our conceptual framework with core concepts related to network contract in section 3, main characteristics and spread of network contracts in Italy in section 4, discussion of main potentials and challenges of network contracts applied in primary sectors and rural development in Italy in section 5. The paper is completed by conclusions and references list.

2. METHODOLOGY

Our paper follows a qualitative-based research approach. We carried out a literature review and document search and analysis. In particular, the main law texts and following modifications, as well as 20 different network contracts already registered, have been analysed in detail in order to identify their principal characteristics with respect to the basic requirements established by the law (in terms for example of rules and procedures for access to or exit from the network, legal status, etc.). In addition, a search in “*Registro imprese*” (URL <http://contrattidirete.registroimprese.it/reti/>), a public accessible Italian database on businesses with special section dedicated to network contracts, was performed by using the key words “*agri**”, “*legno*” and “*industria alimentare*” in order to identify registered network contracts and their composition in terms of businesses number and sectors. Among key words “environment” was not included, as it was mainly referring to chemical or waste disposal businesses. Pertinence of identified contract networks have been checked on the basis of ATECO 2007 codes on economic activities. Among others, the network name, the network stated strategic goal, the number of businesses entering the contract, their name and principal activity according to ATECO 2007 code have been collected and analysed. Finally, these information about contract networks have been contrasted with existing knowledge on other forms of collaboration among economic actors, with a focus on LEADER Local Action Groups and PES schemes.

3. CONCEPTUAL FRAMEWORK

i) presenting a theoretical and conceptual framework drafting the links among social innovation and network governance underline concepts, included social capital, social networks, coordination/collaboration, resilience and adaptation to new societal challenges;

➔ to be completed

4. THE NEW FORM OF AGREEMENT: THE NETWORK CONTRACT

In this section, we describe in detail the new form of contractual agreement called “network contract”, illustrating how and why it can be seen as a potential powerful instrument to enhance collaboration among actors in rural areas and create network governance mechanisms and thus social innovation.

The network contracts have been established through D.L. 5/2009 (art. 3) and further modifications. Since its creation and until 2012, the law has been updated, for example providing specifications, already three times. This might be symptomatic of particular dynamic exchange between policy makers and private sphere. This innovative agreement has as main overall goal to set a common frame of rules among participants/contractual partners.

Time span is a core variable. It is a basic contractual element, as the network contract requires a long term view, a strategy, a planning approach. The network contract defines 3 key issues: 1) a common management body, 2) an asset fund and 3) a clear procedure for taking collective decisions.

A network contract provides an open structure, where the main goal is to deal and solve step by step reciprocal interests and benefits; new participants are accepted without changing the contract also after the contract has been signed. Other types of contracts are typically closed, where the main goal is to satisfy the common interests in a pre-determined unchangeable manner.

The common management body (*organo comune*) represents the network itself (when the network is recognized as a legal subject), however only 10% of the current network contracts are stipulated as network entity. In most of the cases (90% according to Unioncamere 2015), so far, when network are created as network contract, it represents each single entrepreneur involved into the network in interactions and negotiations with public authorities.

To be completed: “Network contracts” vs. “network entities”

FACILITAZIONI PER IMPRESE AGRICOLE: E’ prevista una procedura semplificata per il distacco di personale da un’impresa ad un’altra facenti parte di una rete. Inoltre è prevista la possibilità di assunzione congiunta di lavoratori da parte di imprese legate da un contratto di rete quando almeno il 50% siano imprese agricole. + Agevolazioni fiscali.

However, for the moment, a relatively limited number of the existing contracts (less than 150, i.e. approximately 7.5% with respect to the total) are signed predominantly by SMEs working in the primary sector and rural development (e.g. agriculture, agro-food, forest management, agro-tourism and similar)¹.

TABLE 1 – Network contracts registered by 4th of May 2015 by sector of activity.

One of the first network contracts stipulated within primary sector was created in Verona, among private entrepreneurs mainly importing, processing and trading wild mushrooms. The contract was signed amongst 18 companies located in the North-East of Italy in 2010, with the name “*Rete delle imprese per la tutela dei funghi di bosco*”. On the one hand, its main strategic aim was to identify and develop common protocols and procedures to enhance the quality of

¹ If we include also contract networks signed amongst wood processing companies and contract networks that are not dominated by but involve some agro or forest-related businesses, this number raises up to approximately 220.

their production, mainly by investing in R&D. On the other hand, the network was created for the purpose of increasing the capacity of partners to access international market.

5. DISCUSSION

In this section we first compare the network contracts with some existing other forms of collaboration among entrepreneurs, with a special focus on Local Action Groups (LAGs) under EU LEADER program. Secondly, we discuss potentials and challenges of implementing this new policy instrument in agricultural, forestry and rural development in general, highlighting differences with other forms of aggregation (like LAGs). In particular, starting from the existing example related to a non timber forest product (mushroom) production and commercialisation, our paper aims at exploring positive and negative aspects of its applications in the case of value chains of both forest and agro-food products and payments of ecosystem services (PES) schemes

➔ *to be completed*

In Table 2 we synthesize and compare different forms of collaboration on the basis of their main characteristics, some of which are taken from Powell (1990). INEA (2008) also described various forms of possible integration among agricultural enterprises. In our paper we perform just a preliminary qualitative-based analyses of characteristic main features of collaboration.

Table 2– Comparison among forms of collaboration among entrepreneurs

	Some forms of collaboration used in agricultural and forest-wood sectors					
	Franchising	Joint venture	Consortium	Association (LEADER)	District	Network contract
Type of network	Vertical	Mixed vertical-horizontal	Mixed vertical-horizontal	Horizontal	Horizontal	Horizontal
Amount of commitment among parties	Very low	Low and limited in the time	Medium and limited to executive bodies	High	High	Very high
Characterizing type of collaboration	Head office (franchisor) provides his commercial know-how to the contractual parties (concession)	Leader acts in the name and on behalf of other parties (single goal-oriented)	Parties are committed to carry out jointly one phase of their business	Private-public partnership, with various types of collaboration arrangements among members	Coordination amongst producers/traders in the same area (territory)	Coordination amongst parties, which remain independent each others not necessarily located in the same area
Role of public entities	Define the legal framework to protect franchisee	Contract the leader party	Define the general legal framework and monitor consortium	Typically partners	Not as main partners (only businesses allowed), potential funders	Potential partners in the network
Actor preferences or choices	Dependent	Dependent	Interdependent, through executive bodies	Interdependent through executive bodies	Interdependent	Interdependent
Degree of flexibility	Low	Medium	Low	Low	High	High

Power distribution	One dominating party	One leader	Balanced through executive bodies	Balanced through executive bodies	Potentially equal distribution	Potentially equal distribution
Access to information	Typically asymmetric	Often asymmetric	Symmetric (in theory), sometimes asymmetric (in practice)	Different, depending on members	Symmetric (in theory), sometimes asymmetric (in practice)	Potentially symmetric if properly defined by the contract
Predominant means of communication	Hierarchy (routines)	Documental, bureaucratic	Documental, bureaucratic	Relational, formal	Relational, often informal	Relational
Tone or climate	Suspicious (legal obligation of disclosure)	Formal, bureaucratic	Formal, bureaucratic	Formal, open-ended	Informal	Open-ended, mutual benefits
Long lasting	Medium (minimum 3 years)	Short	Long	Long	Long	Long (characterised as long-lasting contract)
Examples in primary and related sectors (e.g. agro-food)	Divani&Divani by Natuzzi	ATI Filiera Corta Bio Sardegna-Piemonte-Friuli-Puglia-Calabria-Lazio	Consorzio olio DOP Monti Iblei	Local Action Group Prealpi e Dolomiti Bellunesi	Distretto floricolo del Lago Maggiore	Laguna Nord Slow Experience, De Cecco pasta producer

Source: own elaboration.

Franchising = minimum duration of 3 years, as the integration is vertical (governance is dominated by the leader organisation - franchiser, while franchisee has the concession to use logos, trademarks, etc.). Franchising is not a real form collaboration, it is an exchange of benefits. In addition, only examples related to timber and furniture industry are existing so far.

In the field of application of value chains of both forest and agro-food products, the network contract has the function of creating or reinforcing mainly agricultural value chains or *filières*.

➔ *pros/cons differences with respect to the typical structures/forms of collaboration existing with respect to value chains?*

An innovative field of application of the network contract might be the creation and maintenance of payments of ecosystem services schemes (PES) (*description and characteristics of PES, plus citations*).

Even if, to our knowledge, no network contracts have been signed so far with this scope, network contracts would have in this case the function of creating or reinforcing mainly horizontal networks, for example among suppliers of the same ecosystem service (e.g. farmers or forest managers) in a certain territory. One additional option would be the creation of networks among both suppliers and buyers of the ecosystem service. In this case, it might be expected that both vertical and horizontal networks might be integrated.

POTENTIALS OF Innovation of this agreement:

- Three potential nuances of the contract: a) exchange of information or services (soft approach); b) any forms of collaboration in pre-defined fields (intermediate approach); c) joint implementation of any pre-defined activities related to each entrepreneurial field of interest/activity (hard approach) (one example can be the purchasing of raw materials).

- Flexibility /freedom of contractual partners to decide several different key issues included for example: i) how many management bodies (e.g. there are example where both a common management committee and a shareholders Assembly, and others where only the latter is created); ii) duration of the agreement (e.g. as each contract has the right to define how long the contract should remain valid, with no minimum or maximum pre-defined time span); iii) program/planning of activities and strategic goal of common interest (e.g. they can decide what to do together).
- Request of third party in managing the network: a network manager should be independent, impartial positions with respect to contractual partners.
- The capacity to create networks is more and more used also by financial organisations in allocating funds, investments and loans. More specifically, it is used as an indicator to assess entrepreneurs' reliability and thus capacity to give back loans. Draft of rating systems in loans access → describe the initiative launched by Barclays-Confindustria (2009): evaluation is based on performances of both the single business and the network; it will be applied to all companies with a turnover up to 200 M € (and it will be compulsory for companies with turnovers between 70 to 200).

CHALLENGES OF this innovative agreement

- Need to define clearly duties and rights of those partners who access the network after it was established by the initial members.
- Lack of clearness in the procedures for practical implementing the instrument (e.g. lack of digital signature, lack of recording procedures at Enterprises Register)
- Some risks exist to create monopolistic positions on the market, thus determining unfair competition conditions in the business environment. Need to clarify: when the network becomes a monopolistic risk. Can we define minimum thresholds always valid or to be defined case by case.
- Some risks exist to create conditions of tax avoidance for those networks that are including only one business working in primary sector only for opportunistic reasons (probably linked to the fiscal facilities that are provided to all the businesses entering the network if just one of them is working in agricultural sector).
- Being a very new instrument, introduced only 6 years ago: lack of empirical evidences of effectiveness or weaknesses of its implementation, lack of juridical cases, limited practical experiences for collecting lessons learned and best practices, lack of knowledge on real fiscal effects of its implementation with the risk of tax avoidance connected to the possibility of the network to benefit of a number of fiscal facilities when they include even one single agricultural business in the network. Explain this challenges on the basis of "strange" networks recorded in the explored dataset and the exponential growth of number of network contracts.
- Integrate Santoponte (2014)

Tabella 3 – SWOT analysis of network contracts as applied in rural development

Strengths	Weaknesses
<ul style="list-style-type: none"> • Flexibility • Maintenance of each partner's independency (not hierarchal relations) • Possibility to have public entities as network partners. • Partners not necessarily located in the same area. • Fiscal and labour facilities to 	<ul style="list-style-type: none"> • Possibility that one of the partners withdraws the contract (if not properly regulated) • In case of withdrawn, the partner does loose its own capital (invested in creating the network). • Possibility of opportunistic behaviours by some of the partners.

agricultural enterprises when organized with network contracts.	
Opportunities	Threats
<ul style="list-style-type: none"> • Higher rating of networked entrepreneurs when accessing credit. • RDP art. 35 - Measure 16 on Cooperation. • 	<ul style="list-style-type: none"> • Existence of many similar forms of collaboration already consolidated in agriculture and rural development (e.g. districts, etc.) that might be preferred. • Risks of tax avoidance of non agricultural businesses that can access to fiscal facilities reserved to farms if they are contracted in a network

Source: own elaboration.

Policy and research recommendations: The main one is the risk of one parties that withdrawn from the contract. It is a business risk that has to be accepted but it can be reduced by properly formulating, when establishing the network, some common rules. For example, requirements establishing a minimum period of permanence in the network and specific procedures to regulate the exit from the network by formally communicating notice (not being these specific requirements explicitly included in the law).

Why collaborating through a network contracts instead than acting in a competitive approach?

- reduction of costs (scale economy)
- increase transparency, beneficial to all partners (increase exchange of information if there is this enough reciprocal trust among partners, that can be facilitated
- network contracts put together potential competitors: management by a third party is an essential element of agreement success/effectiveness/benefits to all participants.

CONCLUSIONS

➔ *to be completed*

Despite the instrument is designed to be flexible and seems to be adaptable to SME in rural areas, the procedural and organisational arrangements for its implementation are complex, limited professional knowledge is available on how to create and manage the networks in a long-term horizon, and resistances exist (among traditional farmers associations and unions) to the introduction of such a kind of institutional and social innovations, which are perceived able to create new coalitions among economic actors and change the current status quo. Some risks exist to create monopolistic positions on the market; some potentials exist to create trustable and stable relations among actors, included Public Administrations, that can launch more efficient and effective territorial marketing initiatives or invest in research and development. However, further research and empirical evidences are necessary in order to learn more about benefits and costs of network contracts and how they can be adapted to the specific contexts of SMEs working in rural development, agriculture and forestry.

Drivers of future successful development of these agreements: innovation in culture, collaboration and collaborative learning instead than competition! Need to train potential partners of the agreement; need, for the network manager, to have proper instruments to measure internal social capital of the network to monitor whether SC is increasing or declining, and related supporting factors or negative drivers – reciprocal feedbacks from ;

During the AIEAA conference, our paper is expected to raise discussion about the issue of designing, implementing and evaluate policies and related operational instruments that – on

the one hand can be able to foster sustainable agricultural, forestry and rural development innovation, but on the other hand will have potential explosive effects on the current governance mechanisms and power distribution among actors. A lack of knowledge and understanding of political, economic, social and practical implications deriving from the introduction of these instruments should be avoided in order to prevent policy failures and misleading expectations. Also, during the conference, discussion is likely to be focused on how research should contribute in filling the current knowledge gaps both in theories and practices of social innovation, social capital and network governance of natural resources management in rural areas.

References

➔ to be completed

- AIP (a cura di) (2011), Reti d'impresa: profili giuridici, finanziamento e rating, Milano, ed. Il Sole 24 ore.
- Aumann R., Drèze J. (1974), "Cooperative Games with Coalition Structures", in International Journal of Game Theory, vol. 3, n. 4, pp. 217-237
- BEBBER L., Doveri di collaborazione e libertà di uscita dalla rete: il recesso nei contratti di rete.
- Bernini E., Bevilacqua G. et al. (2012), Linee Guida per i contratti di rete, RetImpresa e Comitato interregionale dei consigli notarili delle Tre Venezie, nel sito www.retimpresa.it
- Brandolini A. e Bugamelli M. (a cura di) (2009), "Rapporto sulle tendenze del sistema produttivo italiano", in Questioni di economia e finanza, n. 45, aprile
- Cafaggi, F. (2008). Contractual Networks and the Small Business Act: Towards European Principles, Available online, URL: <http://www.ssrn.com> [Accessed 13.05.2015].
- Christoforou A., Pisani E. (2014), Social Capital and Rural Development in Southern European Regions: The Case of the EU-funded LEADER Projects. LI Convegno di Studi SIDEA "La PAC 2014-2020: Scenari per i sistemi agroalimentari e rurali europei" Benevento, 18-20.09.2014.
- D'Alvia, Tronci, Ciarcia (a cura di), Il progetto rating in De Qualitate, luglio-agosto 2010.
- De Laurentis G. (2011a), Il finanziamento delle reti d'impresa, in AIP (2011), pp. 17-68;
- Delle Monache saggio sul sito www.judicium.it
- DONATIVI V., Le reti di imprese: natura giuridica e modelli di *governance,*in* Le Società, *2011, 1429
- D'AMICO G. - MACARIO F. (a cura) Contratti di rete: prime applicazioni pratiche
- FERRARI C., la governance del contratto di rete nelle prime applicazioni: modelli di organo comune e natura del rapporto gestorio
- Franceschetti, G., Pisani, E., & Di Napoli, R. (eds) (in stampa), Capitale sociale e sviluppo rurale. Dalla teoria alla valutazione empirica. Collana Studi e Ricerche INEA, Napoli: Edizioni Scientifiche Italiane.
- Gatto P., Vidale E., Secco L., Pettenella D. (2014). Exploring the willingness to pay for forest ecosystem services by residents of the Veneto Region. Bio-Based and Applied Economics, 1: 21-43.
- Gatto P., Pettenella D., Secco L. (2009). Payments for forest environmental services: organisational models and related experiences in Italy. IFOREST, 2: 133-139.
- GENTILI A., Il contratto di rete dopo la l. n.122 del 2010, ne *I contratti*, 2011, 617
- GRANELLI C., In margine alla ricerca "Fondazione Bruno Visentini" sulle prassi applicative del contratto di rete, ne *I contratti* 8-9/2013, * 799
- ID (2011b), "I rating delle reti d'impresa", in AIP (Associazione Italiana Politiche Industriali 2011), pp. 175-197;
- INEA (2008). FORME INNOVATIVE DI INTEGRAZIONE IN AGRICOLTURA: UN'OPPORTUNITÀ PER LA PERMANENZA DEI GIOVANI NEL SETTORE PRIMARIO. Rapporto di Ricerca, Roma.

- MARSEGLIA C., Modelli decisionali nel contratto di rete tra disciplina generale del contratto e regime di comunione,
- Myerson R.B. (1991), *Game Theory: Analysis of Conflict*, Harvard, Harvard University Press.
- Pettenella D., Ruol G. (1995). The negotiation of forest management agreements: an answer to the abandonment of Mediterranean forests. In: L.M.Albisu e C.Romero "Environmental and land use issues: an economic perspective". Proc. 34th EAAE Seminar Saragoza, 7-9.2.1994. Wissenschaftsverlag Vauk Kiel.
- Pisani E. (a cura di) (2014) *La misurazione del capitale sociale nei territori rurali*. Padova, Cluep.
- Osti C. (2009), "I limiti posti dalla concorrenza al coordinamento di imprese", in Iamiceli P. (2009a), pp. 133-150.
- Rullani E. (2010), "L'economia delle reti: l'evoluzione del capitalismo di piccola impresa e del 'Made in Italy'", in *Economia e politica industriale*, vol. 37, n. 4, pp. 141–165.
- Secco L., Da Re R., Pettenella D., Gatto P. (2013). Why and how to measure forest governance at local level: A set of indicators. *Forest Policy and Economics*, doi: 10.1016/j.forpol.2013.07.006
- Secco, L., Pettenella D., Gatto, P. (2011). Forestry governance and collective learning process in Italy: Likelihood or utopia?. *Forest Policy and Economics*, 13: 104-112.
- Secco, L. Pettenella D., Maso, D. (2009). Net-System Models Versus Traditional Models in NWFP Marketing: The Case of Mushrooms. *Small Scale Forestry*, 8: 349-365.