

## Consortia as public network. The case of an Italian industrial consortium<sup>1</sup>

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**Abstract:**

*This research is placed in the literature under the subject of public networks for the development of territorial areas. Generally, studies on organizational strategy on the network are heading to more specialized areas of research. A topic that has recently been gaining an increasing interest is the influence of the social environment on the behavior and performance of the network of public and individual members (Meneguzzo, Cepiku, 2008).*

*The work takes as a reference the case of industrial consortia - legal institutions governing joint initiatives for the conduct of certain business activities - both by private and public entities. In particular, it aims to provide an alternative reading that revisits the industrial consortium as an intermediate solution in the management of public goods (Ostrom, 1990).*

*On the theoretical basis of Ostrom's approach (1990), the work aims to provide an alternative reading for the governance of industrial consortia, because there wouldn't be the only public/private dichotomy, but rather a plurality of combinations.*

*Using a qualitative research methodology, the study will be enriched by a case history of an Italian industrial consortium, located in the Lazio region.*

**Keywords:** Industrial consortia, public network.

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<sup>1</sup> Even if the work is the fruit of the contribution of three Authors, paragraphs I and IV were developed by Raffaele Trequatrini, II and III-A paragraphs were developed by Federica Ricci and paragraphs III-B and III-C were developed by Ida Samantha Gilvari.

## **I. Introduction**

The increasing number of studies about network derives from the identification of the same as strategic instruments for the pursuit of competitive advantage. In fact, the company is no longer an independent entity, but operates within social, organizational and relational networks.

The topic of the network represents a focal point for business economics studies applied to public administration. In the past, these studies have focused on the traditional aspects of the public sector, however, over time attention has shifted to the study of public networks. From a business management point of view, the study of public networks has placed emphasis on managerial aspects and relationships between firms.

In light of these circumstances it is appropriate to dwell on what is at the base of public institution or a public network: the commons. Ostrom (1990: 30), defines the commons as production system of resources, natural or artificial, which is large enough to make costly (but not impossible) the exclusion of potential beneficiaries from its use. Therefore, these resources are characterized by the difficulty to exclude certain individuals and because their consumption by the single actor reduces the possibility of being used by other individuals.

Ostrom's study evolves from the work of Hardin (1968), describing the so-called "tragedy of the commons" as the main problem of the common use of any scarce resource. According to Hardin, scarce resources used by a plurality of subjects, can lead to their deterioration or even destruction. It is obvious that when it is not possible to exclude someone from the benefits provided by others, anyone who is motivated not to contribute to the common work and take advantage of the work of the others. If everyone acted as free riders, the benefit to the community would not be produced. Users have no reason to engage in conservation actions and improvement of the commons: this happens because there are no guarantees about appropriability of the benefits from improvement. The problem arises from the absence of recognized users' property rights. If each user were also the owner or manager of the resource he should face costs and benefits, with consequent and necessary preservation of the commons.

In this sense, it becomes important to accurately identify a management policy of collective resources, also through the creation of public networks able to manage and improve the resource.

This paper, after an examination of the literature on the topics covered, aims to provide an alternative reading for the governance of industrial consortia, such as particular forms of public networks and middle combination in the public/private dichotomy, based on Ostrom's theoretical approach (1990).

The paper will be enriched with an Italian case history, the Consortium for Industrial Development in Southern Lazio, in order to highlight the strengths and weaknesses of a public network and trying to propose possible future evolutions.

## **II. Literature review**

Networks include multiple organizations, tied by some form of structural interdependence in which a unit is not the subordinate of others by virtue of its formal position

(O'Toole, 1997: 45). They are particularly effective for dealing with complex problems that public authorities are less and less capable of managing directly with a rational, dirigiste approach has led scholars to focus their attention on networks (O'Toole, 1997; Rittel and Weber, 1973).

Characteristics of networks include continuing interactions to exchange resources and negotiate shared purposes, which are rooted in trust and regulated by shared rules, instead of sovereign authority.

Networks present a challenge for public management research. They are increasingly seen as the most socially and economically sustainable and effective way to deal with and provide solutions to complex problems. In the public sector, they are a natural next step in the evolution of public governance thinking and regulatory economics. Networks are widespread in the public sector, but the amount of consolidated theoretical and conceptual reflection on them is small by comparison. One significant grey area is the strategic coordination and management of networks, in terms of leadership functions, tools and skills. While the issues at hand are clear, there is a considerable lack of literature (Agranoff, McGuire, 2001). The strategic management and governance of networks is different from the management and governance of individual public organizations, authorities and agencies. It is therefore necessary to rethink the executive roles, the strategic management, the planning and control methods, the performance measurement and management, and the information/accounting and reporting systems of the networks, which are identified as situations with "no bosses and many players" (Agranoff, 2003: 11).

The literature on network management and network governance has developed in three main areas: sociology (social network analysis), political science (the policy change model), and business economics and public management (Berry et al., 2004; Oliver, Ebers, 1998; Cepiku, Meneguzzo, 2004), in a separated fashion.

In Italy, a considerable amount of research either with reference to the private or public sector has been dedicated to networks.

It is possible to distinguish between cooperative, coordinative and collaborative networks, respectively focused on the exchange of information and/or expertise; the integration of services; solving very complex problems, with participants being highly interdependent and taking high risks. Collaborative networks are usually formed not to deliver services, but to find innovative solutions and to change the current systems in which services are delivered.

Networks are not immune to failures, just as markets and hierarchies, but there are policy issues that can only be satisfactorily solved through networks. Sources of problems include varied commitment to network goals and different perspectives of the actors involved on the nature of the problem, the desired solution or the best organizational arrangements, culture clash, power issues, loss of autonomy, coordination fatigue and commitment of time and costs, lack of incentives to cooperate and blockades to collective action, potential for reduced accountability by participants and network closeness, few rewards for role in network as compared to role in organizations, absence of important actors (Kickert et al, 1997: 9, 167; Provan and Milward, 2001).

Most of these issues, however, can be addressed through effective network management. Often there is excessive focus on formally creating networks rather than developing systems and structures for managing them and steering competencies (Longo, 2005).

Network management is public management in situation of interdependencies and is aimed at coordinating strategies of actors with different goals and preferences with regard to a certain problem (Kickert et al, 1997: 10). It aims at initiating and facilitating interaction processes between actors (Friend et al, 1974), creating and changing network arrangements for better coordination (Scharpf, 1978). Network management promotes the mutual adjustment of the behaviour of actors with different objectives and ambitions with regard to tackling problems within a given framework of inter-organizational relationships (Kickert and Koppenjan, 1997: 43-4).

There are two components of network steering: process management and institutional design. During the former, the structure of the network (roles, rules, positions and resource division) is considered as given.

Defining the institutional design of a network includes designating the lead organization, influencing formal policy (division of resources and actor positions), defining the rules of entry and, thus, the size of the network, influencing values, norms and perceptions (mass information campaigns, social engineering, collective learning processes). Different institutional forms are possible – self-governance networks, lead-organizational networks, administrative-organization networks – and the main point for managers is that an appropriate network design must be chosen and then implemented and this is critical for the sustainability of the network as it evolves (Provan and Kenis, 2007; 2009).

**III. Case history**

**A. The public network as a strategic tool for collaboration**

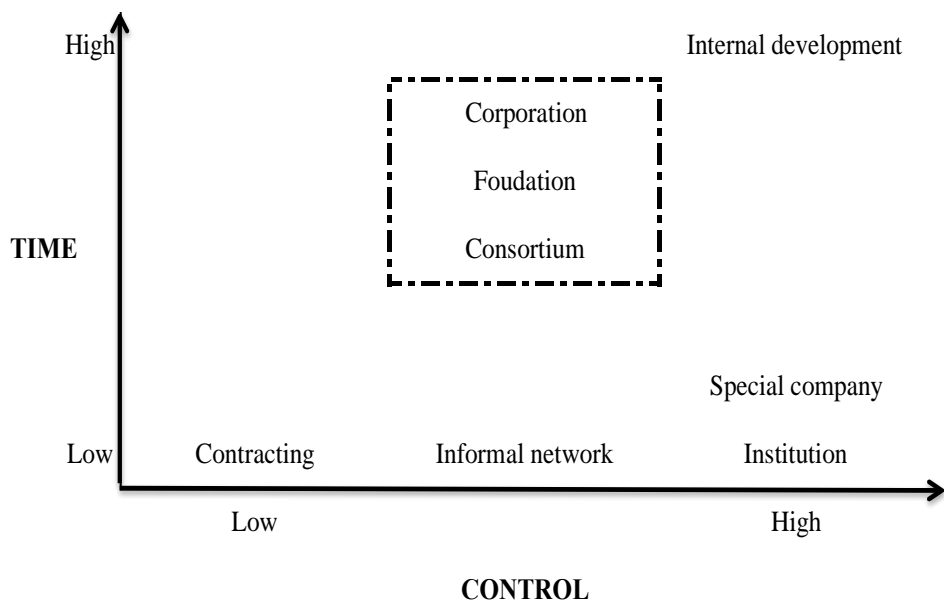
In this context, public and private enterprises have to face with a certain environmental complexity that pushes them to find alternative solutions for survival. It is always

greater the use of mechanisms of cooperation and mutual cooperation designed to meet and share common problems.

In fact, collaboration between public and private entities in Italy have taken on particular importance and are spreading in various industries for different purposes (Cuccurullo, 2005).

The public network arises when the parties want to assume a high level of autonomy, accompanied by the presence of collaborative relationships rather than competitive. In Italy, public networks include a variety of forms of inter-municipal cooperation that can be divided into three groups: a) contractual, are less restrictive forms like memoranda of understanding, agreements, program agreements; b) mixed nature, the establishment of supra-organizations are created specifically to not affect the identity of individual institutions, such as consortia, unions, mountain communities and exercise associated functions; c) institutional nature, which is the merger in order to reduce the number of entities (Cepiku, 2008).

An important problem in the network training process is covered by the choice of the appropriate legal form to the achievement of common goals. The choice can be made on the basis of two variables (Cuccurullo, 2008: 58): the time of implementation and monitoring of the institutional framework. The two dimensions are inversely related to each other: in fact, the choice of creating network quickly orients toward contractual networks, characterized by high costs of control; the choice to use solutions of internal development, on the contrary, requires high investment costs and long lead time. The collaborations that instead include the creation of an institution *ex novo*, are placed as middle way between the two forms described. Therefore, talking about legal forms which require not reduced time for the establishment and a control that may depend on the statutory rules, on the number of shares held by the participating members. In addition to these two dimensions, Cuccurullo (2008) says that the network choice is also influenced by the degree of attractiveness of the company that stems from its technical and financial capital, its management capacity and its share capital.



**Figure no. 1** *The determinants of the choice of the legal form of the public network: the time of implementation and monitoring of the institutional control.*

Source: Cuccurullo (2008: 59).

Among the intermediate legal forms identified in Figure no. 1, there are also consortia that will be treated later in this work.

### **B. Consortia for industrial development in Italy: historical and regulatory**

In light of the considerations made, the consortium is one of the possible instrumental legal forms to government cooperation agreements/collaboration.

The history of this institution has been rather long and winding. The origin of the Industrial Consortium is found in the period immediately following the Second World War. The growing need to boost industrial development after the war prompted the establishment of institutions that would operate in the industrial development of the areas of Southern Italy.

The first intervention can be found in the Law August 10, 1950, n. 646 (so-called *Primo Tempo*) who founded the Fund for the South (*Cassa per il Mezzogiorno*) allocating large sums of money for the implementation of specific measures for the development of the areas. The implementation of the Fund urged the government to search for the decentralization of functions by identifying individuals who could manage the development and funds in a direct and effective way.

However, the lack of coordination of interventions and a number of systemic problems led to a rapid abandonment of the "First time."

Following this failure, a new regulation was adopted in favor of the South: the Law 29.07.1957, n. 634 and the so called "Vanoni's scheme." The interventions became more focused and based on specific objectives. In addition, for the first time, the persons responsible for the implementation and management of the interventions were identified through explicit provision: among these are the consortia for the industrial development areas (identified by the acronym ASI).

The definition of A.S.I. comes only later with the Law no. 64/1986 laying down the requirements so that he could settle that figure in a territory.

Further action, of no particular importance, have occurred over time, without making any significant changes.

To date, the regulatory framework, the Law October 5, 1991, n. 317 and Presidential Decree n. 218 of 16 March 1978, attributed to the Consortium for Industrial Development the nature of public business body.

Consortia are legal institutions regulated by the Italian Civil Code art. 2602 et seq. The article 2602 c.c. identifies the consortium institution as a contract by which "more entrepreneurs establishing a common organization for the discipline or for the performance of certain phases of their businesses."

In addition to the statutory regulations Regional consortia are subject to the laws of the territory in which they are located. In this regard, there is a clear gap in the law: not all Italian regions have laws that govern the operation of the consortia.

### **C. The case of the Consortium for Industrial Development of Southern Lazio**

The Co.S.I.La.M. arises with D.P.G.R. n. 436 of 20 November 2003 through a formal separation from the Consortium for Industrial Development of Frosinone.

The Co.S.I.La.M. operates in the area of Southern Lazio, a moderate size area, characterized and influenced by the presence of the industrial plant Fiat Group, the marble district of Coreno Ausonio, road infrastructures and railway and also by the University of Cassino and Southern Lazio. Nowadays, the territory of the consortium has approximately 170 companies and 8,146 employees.

The consortium is a public statement, characterized by being a mixed entity, in which the local municipalities participates as public bodies and the associations of local business as private entities. On closer inspection, this framework responds to the intermediate solution identified by Ostrom (1990) for the problem of collective resource management. There is no simple public body or private body, but a body that stands in the middle of the two extremes.

The benefit of this structure is first of all to be found in the functionality in managing collective goods ensuring their use to all users in easy conditions and avoiding the overuse of the common resource. Another positive aspect of this structure lies in its expression of territorial network. The consortium network which is distinguished as the centralizing government network for its autonomy and financial condition and because it is guarded by those who have established, i.e. the region.

The task of the consortium, in accordance with the Statute art. 5, is "to promote industrialization and settlement of other productive activities (commercial, trade, tourism, culture, agriculture and services) in the areas of its territory." Thus, the Co.S.I.La.M. acts as vehicle between the instances of private and public institutions for the revival and strengthening of the consortium territory; it has a key role in raising contributions of any kind to support productive initiatives; it contributes to the streamlining of the bureaucratic procedures in order to facilitate the production plants and raises and consolidates the existing activities.

In recent years, the work of the consortium has been articulated on some fundamental points:

- activation of trainings and initiatives for the internationalization of the business between companies;
- promotion of partnerships between businesses and the University of Cassino in Southern Lazio;
- investments for the improvement of roads and sewage treatment plants in the area.

From a management point of view the Co.S.I.La.M. consists of five organs (Article 7 Statute), the General Assembly of the representatives of the Consortium; the Board of Directors; the President; the General Manager; the Board of Auditors. In terms of corporate governance, in the

absence of other statutory choice, a traditional system of management and control is applied.

This model identifies two essential features:

- the control of the Assembly on the Board of Directors;
- a clear separation between the administrative and control activities.

The institution manages essential collective resources for the development of the territory in which it operates. In particular, the Co.SILa.M., besides having introduced infrastructure for the improvement of roads, it also manages a sewage disposal plant and has plans for a second one. The purifier is configured in all respects as a full-fledged common resource, which use is available to all associates, following appropriate interventions.

Ostrom said (1990: 88) contexts that manage a collective resource are mutually different, but have similarities that

allow you to define the basic design principles for all institutions.

Among the elements of analogy it emerges that the contexts compare themselves with uncertain and complex ecosystems. Usually the collective resources are characterized by being linked to the factor "environment" and to all its phenomena and therefore they have a risk of a considerable uncertainty.

In addition, the systems and institutions analyzed by the author are represented by a certain continuity over time. The contexts analyzed by Ostrom are all cases specifically chosen for their durability. This situation is partly explained by the award of special rules for the management of the collective resource.

In light of these observations, we have identified seven principles of design that associate the cases studied by Ostrom and that represent the conditions of success in the management of collective resources.

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**Design principles commonly found in institutions for a long time responsible of collective resources**

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1. Clearly defined boundaries
  2. Congruence between appropriation and provision rules and local condition
  3. Collective-choice arrangements
  4. Monitoring
  5. Graduate sanctions
  6. Conflict-resolution mechanisms
  7. Minimal recognition of rights to organize
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**Figure no. 2** *Design principles commonly found in institutions for a long time responsible of collective resources.*

*Source:* our elaboration from Ostrom (1990: 90).

By adapting these design principles to the reality of a consortium as the Co.S.I.La.M. it is easy to see that following the above logic can help to improve the management of common resources.

Defining the boundaries of the resource system resources and therefore the persons who are allowed to use it, is the first step towards the management of the resource. If these boundaries are not defined the resource could be destroyed, or those who invest in the system may not receive any profit. In order for this not to happen, it would be necessary to be able to exclude others from the access and ownership rights. Indeed, if the number of appropriators is high and the demand for resource units is high, in case of free use of the resource, the discount rate for the appropriators would be pushed towards 100%. The higher the discount rate the intensive is the exploitation of the resource group.

However, it is not enough to define the boundaries, but you also need to give some consistency to the rules of appropriation and provision for the duration of resources. It is obvious that the resource use systems follow different rules regarding the conditions of the area where the resource is. The management of a sewage plant, for example, may provide different rules with respect to another item of the same type, by virtue of those that are the characteristics of the territory. It is the responsibility of the consortium to respond to the needs of local rules.

The third principle identified by Ostrom concerns the mechanisms of collective decision. According to the author,

individuals who interact directly with each other and the physical world, can modify the rules may change over time and adapt them to the local conditions. In the case of a consortium that method is not easy to apply because we are talking about an organization in which there are both public and private representatives. The Co.S.I.La.M., in particular, is necessarily subject to political influences of the territory. A mechanism of collective decision would not be easy to implement in this case, but it would be desirable for a cautious management of the collective resources.

Monitoring is an important point for any system of collective resources. According to the analysis carried out by Ostrom, it is necessary that the supervisors meet the appropriators or they are the appropriators themselves, in order for the system to have a long life. A monitoring system like that is not found in the case of Co.S.I.La.M. which, however, performs the control autonomously.

The fifth principle involves the application of graduated sanctions for appropriators or other officers who violate the operational rules. The punitive action is applied by the participants to the system and not by external authorities. In the systems analyzed by Ostrom surveillance costs are low due to the rules adopted. It is necessary that the appropriators themselves are properly motivated to exercise control over others. The same situation arises in the event of the mechanisms of conflict resolution. The appropriators or their agents are the ones who have to deal with conflict resolution. The advantage is the low-cost dispute resolution.



The seventh and final design principle concerns a minimum level of recognition of the right of self-organization of the appropriators. The rights of self-organization of these individuals would not be contestable by external authorities, from formal governmental jurisdictions. In the Italian and in the Co.S.I.La.M. a similar situation is not conceivable as the institution is subject to external authorities rules.

These principles, although they are at the basis of those institutions that have long run collective resources, are unlikely to be repeated in the case of the consortium Co.S.I.La.M. and industrial consortia in general. In fact, the cases analyzed by Ostrom are far from the industrial consortia, mainly because of the type of managed resources, but also for the reference contexts.

#### **IV. Summary and conclusions**

There is no doubt that the industrial consortia represent a reference point for the Italian production. However, in the future, the consortium appears inappropriate for the context in which it operates.

Among the main problems that could occur in consortia there is definitely a strong political influence resulting from the public component participating to the institution and typical of the Italian industrial consortia. Even more so, if the majority of the entity is public it may arise significant inconvenience to the management level. There is no doubt that such influence can somehow make inefficient mechanisms of governance of common resources and economic resources of the consortium.

The direct consequence of political influence is the tendency towards the creation of a bureaucratic and governmental system greater than the actual needs of the institution.

Connected to the political influence is also the inability to achieve a balance between costs and revenues: it is clear that local consortium have to sacrifice the efficient management of the institution to meet the political bodies of the territory.

However, the structure of consortia also brings benefits to the territory in which it operates. The performance of a territorial network brings many positive elements. Land management is done in a centralized manner, then the consortium works to promote the common development of the enterprises. In this sense, one could consider the creation of a common brand for the recognition of the institution, its businesses and its products.

In essence, the main problem from which we think it is possible to derive new insights concerning the provision of services by the consortium. The management of collective resources, with a view of competition could violate the rules of the competition. The consortium provides services related to its resources at competitive prices compared to any private entity. Providing a service that essentially divides the costs among participants in the consortium, rather than opting for an individual solution or resort to a private person, involves a reduction of costs and the ability of the entity to provide the service at a lower price.

To date, therefore, the figure of the consortium continues to be balanced between strengths and weaknesses. These institutions, in order to survive, will have to operate using more and more networks for the development of the territories in which they operate, trying to be over territorial

entities compared to the traditional public entities. It would be conceivable even a collaboration between neighboring consortia to improve infrastructure links and industrial settlements.

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