

The Management of the Financial Collapse of Local Bodies and its Economic-Territorial Effects: The Case of the Municipality of Taranto

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Abstract: *The present work aims to offer a contribute for the evaluation of the opportunity to adopt strategies based on state support or, alternatively, on the managerial autonomy of local bodies in financial trouble. The research, after analyzing the main guidelines at European level, presents the results of an empirical investigation on the economic effects produced on the local economy by the financial default of the Municipality of Taranto. The choice of the Municipality of Taranto is due both to the significant magnitude of the ascertained debt, which was one of the highest in the history of Italy, and to the considerable economic effects caused by the recovery procedure. Specifically, with reference to the companies admitted to the passive mass, we determined, firstly, the economic losses they suffered and, secondly, we took into consideration the survival state and the strategies adopted by the companies involved in the insolvency procedure which were located in the local area of reference. From this work can be drawn some major conclusions. In general, it can be said that the relevant legal standard proved to be ineffective, as it does not define the recovery ways and the timing for the closure of the procedure. In particular, it does produce relevant economic effects on local enterprises, only in part mitigated by the diversification strategies adopted by the enterprises.*

Keywords: *local bodies; financial default; local effects; business strategies.*

JEL: *H83; M19; M41; M42.*

Introduction

The present research aims to evaluate the opportunity whether to adopt state-support strategies or, alternatively, leave to the local managerial autonomy the adoption of reorganisation policies of the local bodies in financial trouble.

The motivations behind the study came primarily from the observation of the significant economic effects produced by the financial collapse of public bodies on the different local economies.

In order to usefully contribute to the discussion on the topic of state support vs. managerial autonomy, in this study, after analysing the main European guidelines, are illustrated the results of an empirical investigation on the economic

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effects produced by the collapse of the Municipality of Taranto on the enterprises operating in the local area of reference.

The choice of the city of Taranto is due to both the significant magnitude of the ascertained debt, which was one of the highest in the history of Italy, and to the significant economic effects caused by a lengthy rationalisation procedure, not yet concluded after about ten years.

In this regard, the empirical study aimed to examine the survival state of the companies involved in the insolvency procedure and resident in the local area of reference, as well as the economic sectors most severely hit and the main strategies they adopted for facing the effects of the collapse of local administrations.

In particular, this study aims to answer the following main research questions:

- which strategies are the most suitable for solving the financial crisis of the municipal administrations?
- which are the economic effects that the failure of a local authority can produce on the principal local economic actors, or rather on businesses?
- which strategies can be taken by the companies involved in the collapse of a local authority to tackle the financial crisis of the municipal administration?

Therefore, the present work, after analyzing the dilemma between State support and local administration autonomy in the financial collapse management, investigates the effects produced on the local economies by the managerial local autonomy of an Italian local public body: the Municipality of Taranto.

Specifically, the analysis focuses on enterprises involved in the financial default of which investigates their survival status

1. Literature Review

The theme of the crisis of the local authorities has not yet been deepened, in its various aspects, by international and national doctrine, concerned mainly with analysing the dysfunctions of enterprises.

Such a lack of interest is justified by the fact that, usually, the financial difficulties of local authorities are solved with an extraordinary funding by the central government, aimed at limiting the effects on citizens, local economies, and, indirectly, on the economy as whole.

In literature, however, particular attention to the crisis of the local public administration has been reserved especially by Anglo-Saxon and north-European literature (from Sweden, Norway, Germany), where the issue of the efficiency and effectiveness in the management of public services is a recognised, practiced and developed subject (Fink, 1986; Weitzel, Jonsson, 1989).

The analysis of the literature does not reveal the presence of specific empirical studies intended to measure the economic effects produced by the default of Public Entities.

Doctrinal studies on this subject, in fact, are aimed to investigate the causes of the financial troubles and their geographical and temporal distribution (Carmeli, Cohen, 2001).

Consequently, the present study is particularly important because of the original investigation perspective, aimed to measure the economic and social effects derived from the financial difficulties of the local public bodies.

The analysis carried out helps to solve the issue, present in literature, concerning the choice between managerial autonomy and state interventionism in the recovery plans.

2. Methodology

In terms of methodology, this study is characterized by a multiple approach (Simon, 1977). The first part of the work is descriptive-informative on the main institutional and doctrinal guidelines on State support vs autonomy in the management rationalisation of local authorities; the second part is experimental-inductive, with cognitive-interpretative purposes of the multi-faceted economic causal effects related to the phenomenon of the financial collapse (Aron, 1972; Kuhn, 1970; Franceschi Ferraris, 1978; Yin, 1984).

The empirical research, based on an empirical-inductive methodological approach, typical of the economic and social studies, was designed to the interpretation of the effects produced by the financial collapse of the local administrations on territorial economies (Yin, 1984, Vicari, 1992; Fattore, 2005).

The analysis had a bottom-up approach: firstly were examined the data obtained from the official documentation, and subsequently the same data were observed and reprocessed to better describe and summarize the complexity of the economic phenomenon under investigation (Dagnino et al., 1988; Corbetta, 1999).

At the operational level, in order to achieve the goal of assessing the economic effects produced by the financial collapse on economic operators, a series of activities were planned, organized and coordinated.

At a first stage, we acquired the resolutions of ascertainment of debts admitted to the insolvency procedure.

This documentation, provided by the Extraordinary Liquidation Board (OSL) through the Chambers of Commerce of Taranto, dated from the beginning of the insolvency procedure (October 2006) to 30 September 2013.

Subsequently, the applications for the admission to the passive mass were grouped per number and amount, and separated into: rejected applications, applications opened but not yet carried out, settled applications and unsettled applications due to rejected offerings. This procedure was intended to ensure, on a

certain date, the total liability amount and to define the number of the already settled instances and the number of those still to be settled.

By examining the applications eligible for admission to the passive mass, it was possible to determine the universe of investigation, which consisted of the holders of claims considered either eligible or ineligible by the OSL.

Once defined the composition and the ownership of liabilities, thanks to the data offered mainly by the Chambers of Commerce of Taranto, could be detected both the type of creditors (businesses, professionals, credit institutions, employees, etc.) and their economic sector of activity (services, trade, finance, leasing, transport, etc.). Afterwards, from the universe of the economic players involved in the financial default, the sample represented by the companies admitted to passive mass could be obtained.

With reference to the enterprises resident and operating in the Province of Taranto and admitted to the liabilities, we carried out an investigation aimed to observe the so-called "losses for mortality", that is the number of companies of the area of Taranto that closed down as a result of the collapse of the municipal body.

In the context of this analysis particular attention was paid to the different survival strategies adopted by the enterprises, such as: expansion of their economic activity, changes of their administrative office and seat of operational activity, changes in their legal form.

The empirical research suffers from some limitations, due, primarily, to the fact that the analysis is the result of the point of view of an external observer, so the results achieved do not consider the information owned only by those responsible for the governance (Silvi, 2006).

A further limitation, consequent to the previous one, consists in the lack of analyses on the whole spectrum of the economic players other than enterprises (families, associations, religious bodies, etc.) directly and / or indirectly involved in the collapse of the Local Body.

3. The European management of the financial collapse of local bodies: State Support or managerial autonomy?

The current economic crisis that hit the economies of many Western countries, including Italy, inevitably affected the policies of state budget and public spending of the various local governments, with significant consequences on their already precarious financial conditions (Kettl, 2000; Borgonovi 2002; Monfardini, Von Maravić, 2008; Grubnic, Woods, 2009; Scorsone, 2010; Mussari, 2011).

In many UE and non-EU countries, including Italy, in order to promote a greater accountability of the local governments in the management of public resources, as well as a more efficient and effective administrative action, were introduced new systems of economic and management governance, typical of companies (Van Wart, Cayer, 1990; Hood, 1995; Parker and Gould, 1999; Crook,

Sverisson 1999; Mussari, 1999; Crook, Manor, 2000; Anselmi, 2003; Pavan, Reginato, 2004; Borgonovi, 2004).

The introduction of such instruments oriented to an effective management required the adoption of complex reporting and performance measurements, in terms of accountability and management control (Sharpe, 1964; Parker, Gould, 1999; Bac, 2010; Brusca, Montesinos, 2010; Turco, 2011).

In order to support the decision making processes of local administrations through a proper information structure, we moved from a cash basis accounting system to an accrual basis accounting system, suitable for monitoring the economic, financial and capital effects of management action (Guthrie, 1998; Bach, Vesper 2002; Stanley et al., 2008; Mack, Ryan, 2007; Bac, 2010; Brusca, Montesinos, 2010; Tooley et al., 2010).

In this new scenario, the survival of local public bodies depends largely on the management administrative abilities to maintain, over time, the conditions of economic and financial balance, essential to ensure the continuity and the autonomy of the public administration (Beaver, 1966; Altman, 1968; Wilcox, 1971; Coda, 1975 and 1983; Drucker, 1981; Manes Rossi, 2002).

The maintenance of the different equilibrium conditions requires, of course, that the management of the public body is able to conjugate the efficiency and effectiveness of the services offered (suggested value) with the users' expectations and needs (recognized value) (Coda, 1983; Borgonovi, Mussari, 2011).

The introduction of this cultural "revolution", inspired by the concept of "corporatization" and implemented in different ways in various EU countries, has led to a fiscal decentralization and to increased administrative autonomy (Council of Europe, 2010).

Jointly to mentioned implemented change, and in order to rationalize public spending, in the EU area has been introduced the "stability pact" (Council of Europe, 2000, 2002, 2007 and 2010), which resulted in progressive restrictions of state contributions and decentralization of many public functions (Kettl, 2000; Wollmann, 2004).

The measures introduced, together with the inability of many local governments to direct the changes implemented, have, unfortunately, led to an impoverishment of the financial resources of local bodies and helped to produce, in severe cases, structural imbalances and even default situations (Carmeli and Cohen, 2001).

In Italy, this critical situation is unfolding in its whole severity, as evidenced by the 479 cases of financial ruin declared until May 2013, as well as by the 25 municipalities having their financial difficulty stated since 2012 until April 2013 (Court of Accounts, 2013).

The Council of Europe, during the updating of the European Charter of Local Autonomies, established the principle of protection of the financially

weakest local bodies, which must be supported through state funds for fiscal equalization (Council of Europe, 2010, art. 9).

This provision has been transposed in Italy with the approval, in 2010, of the Charter of Local Autonomies.

In doctrine, several studies have been made on this subject with the purpose of identifying the best mechanisms for the distribution of public resources to local governments (Shah, 1994), as it was assumed that any government intervention in support of the local governments in difficulty breaches the principle of autonomy and weakens the liability of public administrators (Mirrlees, 1971; McConnell, Picker, 1993; Kimhi, 2008).

It is clear that the decision for the intervention in favour of local bodies in critical situations is complex.

The financial rescue of local governments in financial distress poses, indeed, a strategic dilemma, both for central government and for the local bodies as well (Handler, 1986). So, if in a governmental context the decision for the extraordinary intervention and rescue clashes with the need to have real information on the financial condition of the local body in financial trouble (Herold, 2009; Boadway, 2006), it must be taken into account that the benefits that the local community gets from public intervention can be considered a special and individual interest, damaging the interests of the national community (Horst, Douglas, 1997).

Of course, at local level can be found two opposed needs, namely, on the one hand are required more state resources to fund public services without burdening local economies with more taxes; on the other hand, there is the claim for a greater decision-making autonomy favouring a better management efficiency.

Local bodies are favourable to State support, though studies carried out on this matter show that where public intervention is operative, unsustainable and uncontrolled spending policies are encouraged (Bordignon et al., 2001; Von Hagen et al., 2000; Breuillè, Gary- Bobo, 2007).

The negative effects produced on the national economy by the widespread and generalized state public interventions in support of local authorities in difficulty have been proven empirically, thanks to case studies in Norway, Sweden and Germany and reported as proof at the Council of Europe (Council of Europe, 2002; Herold, 2009; R. Singh, 2005; Von Hagen et al., 2000; Seitz, 1999; Shefter, 1992).

Moreover, in these countries the institutionalization of extraordinary state funding in favour of local governments in financial trouble have prompted many municipalities, also not in difficulty, to declare a state of financial collapse, with serious consequences for the national economy.

The improper use of state aid has ended up causing serious financial difficulties to such an extent that the same governments were forced to eliminate or limit the financial support measures. In most European countries, however, there are specific regulations concerning support to local bodies in financial difficulty

and, in most cases, these actions are conditioned by the occurrence of certain conditions affecting local bodies to access the aid (Council of Europe, 2002, p. 37).

The parameters generally used to ascertain the financial condition of local bodies are linked to the ratio between debt and their own resources, or to the relationship between debt extent and working capital (Council of Europe, 2002, p. 37). Infrequent are the instructions about the methods for determining the contributions to be paid, the quantification of which is left, in most cases, to the discretion of the central government (Council of Europe, 2002, p. 37).

Ultimately, Europe has welcomed the direction of the management autonomy of local bodies to manage their own financial difficulties, including administrative instability, although, there are exceptions, as demonstrated by the *ad hoc* interventions granted in favour of local bodies in financial difficulty using financing channels other than the specific ones (Council of Europe, 2002, p. 37).

The issue in question, for its economic, political and social implications, is still open, as shown by the different solutions adopted by individual European States.

4. The empirical research: methodological references and subject of investigation

The empirical research, based on an empirical-inductive methodological approach, typical of the economic and social studies, is designed to the interpretation of the effects produced by the financial collapse of local administrations, as well as to contribute to the resolution of the decisional dilemma between support policies and managerial autonomy (Yin, 1984).

The local administration under financial trouble subject of investigation is the Municipality of Taranto, which started its recovery procedure in the far October 2006 (Commissioner's decision no. 234/2006) and still pending after almost nine years have been spent since its beginning.

The analysis units of the research are the economic actors eligible for admission to the liabilities of the financial collapse of the Municipality of Taranto. The area of interest consisted of the behaviours that these economic actors assumed in the time interval between the date of the insolvency declaration of the Municipality (October 2006) and the start of this analysis (September 2013).

The analysis had a bottom-up approach: firstly have been examined the information derived data obtained from the official documentation, and subsequently the same have been observed and reprocessed to better describe and summarize the complexity of the economic phenomenon under investigation (Corbetta, 1999).

At the operational level, in order to achieve the goal of assessing the economic effects produced by the financial collapse on economic operators, a series of activities were planned, organized and coordinated.

As first stage, have been acquired the resolutions of ascertainment of debts admitted to the insolvency procedure. This documentation, provided by the Extraordinary Liquidation Board (OSL) through the Chambers of Commerce of Taranto, dated from the beginning of the insolvency procedure (October 2006) to 30 September 2013.

Subsequently, the applications for the admission to the passive mass have been grouped by number and amount, and separated into rejected applications, applications opened but not yet carried out, applications settled and unsettled due to rejected offerings. This procedure was intended to ensure, on a certain date, the total amount of liabilities and to define the number of already settled instances and the number of those still to be settled.

Through the examination of applications eligible for the admission to the passive mass it was possible to determine the universe of investigation, which consisted of the holders of claims considered either eligible or ineligible by the OSL.

Once defined the composition and the ownership of liabilities, thanks to information support offered mainly by the Chambers of Commerce of Taranto, the type of creditor (businesses, professionals, credit institutions, employees, etc.) and their economic sector of activity (services, trade, finance, leasing, transport, etc.) have been detected. Afterwards, from the universe of the economic players involved in the financial default, it has been extract the sample represented by the companies admitted to passive mass.

In reference to enterprises resident and operating in the Province of Taranto, admitted to the liabilities, was carried out an investigation aimed to observe the so-called "losses for mortality ", that is the number of companies of Taranto that closed down as a result of the collapse of the municipal body. In the context of this analysis particular attention was paid to the different survival strategies adopted by enterprises, such as: expansion of the economic activity, changes of their administrative office and operational activity seat, changes in their legal form. The empirical research suffers from some limitations, due, primarily, to the fact that the analysis derives from the observation perspective of an external analyst, so the results achieved do not consider such information owned only by those responsible for the governance (Silvi, 2006).

From this arise a further limitation consisting in the lack of analyses on the whole spectrum of the economic players other than enterprises (families, associations, religious bodies, etc.) directly and / or indirectly involved in the collapse of the Local Body.

5. The survival status of enterprises in the Province of Taranto eligible for admission to the financial collapse

The present study aims also verify the survival rate of the enterprises of the Province of Taranto eligible for admission to the financial collapse and examine

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the different strategies they adopted for facing the economic effects resulting from the recovery procedures. The reference period of the research is from October 2006 (the date of the collapse) to 30 June 2013.

The analysis was conducted on a sample of (settled and unsettled) firms, defined in relation to the significance of the debt-claim. In order to make this analysis relevant, the sample included firms with credits higher than 10,000 EUR. The choice of such a monetary parameter is justified by the significant number of companies included into the sample and by the representativeness of the entire value of the settled credit.

Another aspect considered for the purposes of the definition of the sample was the absence of public participation in the corporate structure of these enterprises. With reference to this additional parameter, no. 9 municipally-owned companies were excluded from the sample of settled firms.

5.1 The survival rate of the “settled” enterprises

In reference to settled enterprises, that is the enterprises that had settled in transaction their credit positions towards the local administration, resident in the Province of Taranto, the universe under observation consisted of no. 317 by 31 August 2012 (see table 1).

Table 1. Credit settled under transaction in the Province of Taranto according to type of creditor (values in eur)

Type of Creditor	Nr	Par Value	Paid Value	Economic Loss on Credits	% Credit paid
Businesses	317	155,328,072.18	77,347,766.31	77,980,305.87	49.77%
Professionals	370	11,221,174.62	3,749,507.90	7,471,666.72	33.03%
Individuals	1,733	19,814,223.71	6,727,942.57	13,086,281.14	33.84%
Public bodies or publicly-owned companies	84	5,168,033.32	2,882,643.26	2,285,390.06	54.90%
Others	84	308,617.60	132,351.71	176,265.89	42.87%
TOTAL	2,588	191,840,121.43	90,840,211.75	100,999,909.68	47.34%

Source: Our elaboration on data taken from OSL report, on 28 February 2012; Survey on the Registry of Businesses Hold by Chamber of Commerce, Industry, Craft and Agriculture (C.C.I.A.A.) of Taranto, carried out on 30.09.2014.

The sample subject of investigation represented by enterprises settled under transaction resident in the Province of Taranto, excluding businesses holding credits less than EUR 10 thousand and enterprises with public participation, was made up of no. 105 enterprises, that though represented a credit par value of EUR 71.3 million received payments for EUR 31.4 million (see tables 1 and 2).

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Table 2. The population and the sample of the settled enterprises in the Province of Taranto (value in million eur)

Type of Creditors	Enterprise Number	Credit Par Value	Settled Value
Total settled enterprises, of which:	317	155,328,072.18	77,347,766.31
a) Settled enterprises with credits higher than 10,000 EUR	105	71,381,841.07	31,462,791.04
b) Settled enterprises with credits lower than 10,000 EUR (+ 9 publicly-owned enterprises)	212	83,946,231.11	45, 884,975.27

Source: Our elaboration on data taken from OSL report, on 28 February 2012

The analysis of the 105 enterprises of the sample, performed by consulting the business profiles taken from the Chamber of Commerce, Industry, Craft and Agriculture (C.C.I.A.A.), highlighted that of the 105 companies taken into consideration: n. 62 companies were active (59% of the sample); 11 were undergoing insolvency procedures (10%); and n. 32 (31%) had voluntarily ceased their economic activity, n. 5 of them even before the financial collapse.

The greatest number of (voluntary and forced) terminations took place between 2010 and 2013, with the highest number in 2010 (see table 3).

Table 3. Survival status of settled enterprises in the Province of Taranto

	Before 2006	2006	2007	2008	2009	2010	2011	2012	2013
Active enterprises	100	91	90	89	82	67	65	65	62
Insolvency procedure	0	5	5	5	8	10	10	10	11
Voluntary terminations 2006-2013	0	4	5	6	10	23	25	26	27
Voluntary terminations before 2006	5	5	5	5	5	5	5	5	5
Total	105	105	105	105	105	105	105	105	86

Source: Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – 30 September 2014

Another aspect investigated was whether the survival status of the settled enterprises under transaction was influenced by possible change of their residence and / or operation outside the Province of Taranto, since deemed necessary to better face the economic effects produced by the collapse.

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Out of the 105 companies taken into consideration as many as 65 had kept their residence and operation in the Province of Taranto and of these 35 were still active, while 30 had ceased voluntarily or forcibly their economic activity (see Table 4).

Table 4. Relation between survival status and residency operation of settled enterprises of Taranto

	Active enterprises	Liquidation procedures	Voluntary Closures	Total
Resident and operating in the Province of Taranto	35	11	19	65
Resident and operating outside the Province of Taranto	19	0	2	21
Not resident and not operating in the Province of Taranto	5	0	1	6
Not resident but operating in the Province of Taranto	3	0	1	4
Resident and operating in and outside the Province of Taranto	9	0	0	9
TOTAL	62	11	32	105

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014.

The companies with the highest survival rate were those that, though leaving their registered office in Taranto, transferred their operations outside the Province. In this regard, out of the 21 companies that adopted this strategy, only two had closed down. As confirmation of this winning strategy, there was the datum on those companies that while retaining both residence and operations in Taranto expanded their activity outside the province. Out of the 9 companies considered, no one had ceased its economic activity. Moreover, the study considered the relation between the survival status and the change of economic activity of enterprises. In this regard, it was noted the unwillingness of enterprises to modify their original entrepreneurial object, so much so that 76 companies out of 106 did not make any change. Companies that modified and expanded their business were those that suffered less terminations or insolvency procedures (see table 5).

Table 5. Relation between survival status and change of economic activity of settled enterprises of Taranto

	Active	Liquidation procedure	Closures	Total
Same business activity	39	10	27	76
Change of activity	5	1	2	8
Expansion of activity	18	0	3	21
TOTAL	62	11	32	105

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014.

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Another aspect under investigation was the influence of the legal form of the companies on their survival status. The analysis of the sample showed that out of 62 active companies, as many as 36 were limited companies. The highest mortality rate characterised individual firms, in fact out of the 25 enterprises of the sample 17 had closed down (see table 6).

Table 6. Relation between survival status and legal form of settled enterprises

	Limited companies	Partnerships	Individual firms	Cooperative enterprises	Others *	Total
Active enterprises	36	4	8	11	3	62
Liquidation procedures	7	3	0	1	0	11
Voluntary closures	9	5	17	1	0	32
TOTAL	52	12	25	13	3	105

* Under Others are included: Associations, Foundations, Consortia.

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014.

The companies that best faced the financial troubles caused by the delays in payments due to the statement of financial collapse were cooperative enterprises (survival rate 84.6%) and limited companies (survival rate 69.2%).

Finally, important was the analysis on the distribution of enterprise closures in relation to their economic sector.

The economic sector that recorded the highest number of companies that ceased (voluntarily or forcibly) their economic activity was the building industry, in which out of 32 companies 22 had closed down (see table 7).

Table 7. Relation between survival status and economic sector of settled enterprises

	Active enterprises	Liquidation procedure	Voluntary closures	Total
Agriculture and related activities	4	0	1	5
Manufacturing, energy, etc.	9	1	1	11
Building	10	7	15	32
Commerce	8	2	8	18
Tourism	1	0	0	1
Transport and Shipping	4	0	4	8
Insurance and Credit	1	0	0	1
Enterprise services	6	1	3	10
Care services	13	0	0	13
Other services	6	0	0	6
Total classified enterprises	66	11	32	105

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014.

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The sector that showed the highest survival rate was the sector of care services, with 13 companies still operating. This can be explained by the fact that these companies continue to provide essential social services to the Municipality of Taranto.

5.2 Survival rate of the “unsettled” enterprises

The “unsettled” enterprises of the Province of Taranto admitted to the financial collapse, by 30 June 2013, as already reported above (see table 2), were 60, of which those included into the survey sample were 29, according to the parameter of claimed credits higher than 10,000 EUR (see table 8).

Table 8. The population and the sample of unsettled enterprises of the Province of Taranto (value in million eur)

Type of Creditor	Enterprise Number	Credit Par Value	Paid Value
(Total) unsettled enterprises, of which:	226	10,669,591.29
a) Unsettled enterprises of the Province of Taranto (of which no. 33)	60	6,230,162.44
- <i>Unsettled enterprises claiming credits higher than 10,000 EUR (survey sample)</i>	29	5,920,602.21
- Unsettled enterprises claiming credits lower than 10,000 EUR	31	309,560.23	
b) Unsettled enterprises outside the Province of Taranto	166	4,439,428.85

Source: *Our elaboration on data taken from OSL report of 28 February 2012*

The analysis concerned, initially, the degree of survival of the enterprises under investigation, ie the unsettled ones claiming credits exceeding 10,000 EUR. The research showed that only 3 out of the 29 included into the sample had gone out of business, while 26 were still active. The period in which these terminations mainly occurred was the year of the collapse, namely the year 2006 (see table 9).

Table 9. Survival status of the unsettled enterprises of Taranto

	2006	2007	2008	2009	2010	2011	2012	2013
Active enterprises	27	27	27	26	26	26	26	26
Liquidation procedures	0	0	0	0	0	0	0	0
Voluntary closures	2	2	2	3	3	3	3	3
Total	29							

Source: *Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – Survey date 30 September 2014.*

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Furthermore, we investigated the relationship between the survival status of the unsettled enterprises and the keeping of their residence and/or operations in the Province of Taranto. Contrarily to what observed in the case of settled companies, it was found that the 23 active companies did not transfer their residence and/or operation outside the Province of Taranto. Only two companies, however, expanded their operations outside the territory of reference as well (see table 10).

Table 10. Relation between survival status and residency-operativity of the unsettled enterprises of Taranto

	Active enterprises	Liquidation procedure	Voluntary closures	Total
Resident and Operating in the Province of Taranto	23	0	3	26
Resident and Operating outside the Province of Taranto	1	0	0	1
Not resident and not operating in the Province of Taranto	0	0	1	0
Not resident but operating in the Province of Taranto	0	0	1	0
Resident and Operating in and outside the Province of Taranto	2	0	0	2
TOTAL	26	0	3	29

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014

The companies that better faced the economic effects of the financial collapse were, in this range of investigation, limited companies, in fact all of them were still operating. The companies showing higher mortality rates were individual firms, certainly because of their small size (see table 11).

Table 11. Relation between survival status and legal form of settled enterprises

	Limited companies	Partnerships	Individual firms	Cooperative companies	Others*	Total
Active societies	13	4	5	3	1	26
Liquidation procedures	0	0	0	0	0	0
Ceased companies	0	0	3	0	0	3
TOTAL	13	4	8	3	1	29

* Under Others are included: Associations, Foundations, Consortia.

Source: Our elaboration on data taken from the Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014.

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The economic sector, however, that was better able to deal with the effects of the collapse is represented by the industry of care, business and trade services, with almost all the companies still in operation. Whereas the sectors with the highest mortality rate were manufacturing and energy, in which all companies had closed down (see table 12).

Table 12. Relation between survival status and economic sector of the unsettled enterprises of Taranto

	Active enterprises	Ceased enterprises	Total
Agriculture and related activities	1	0	1
Manufacturing, energy, mining enterprises	2	2	4
Building	4	0	4
Commerce	6	0	6
Tourism	0	0	0
Transport and Shipping	0	0	0
Insurance and Credit	0	0	0
Business services	6	1	7
Care services	6	0	6
Other services	1	0	1
Total classified enterprises	26	3	29

Source: Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014

Lastly, with respect to the influence of the change of activity on their survival status, enterprises that expanded or modified their entrepreneurial object, by adopting diversification strategies, showed an very good survival performance, differently from those that maintained their original activity (see table 13)

Table 13. Relation between survival status and change in economic activity of unsettled enterprises of Taranto

	Active enterprises	Ceased enterprises	Total
Same activity	17	3	20
Change of activity	1	0	1
Expansion of activity	8	0	8
Total	26	3	29

Source: Business Profiles of the enterprises included in the sample – C.C.I.A.A. of Taranto – survey date 30 September 2014

Conclusions

The European local public bodies, as a result of the Treaty of Maastricht (Council of Europe, 2007), were affected by a gradual process of administrative decentralization, accompanied by significant cuts in government transfers, which led to the transition from a centralised public hierarchical system to one based on the principle of vertical subsidiarity (Pollitt, Bouckaert, 2004; Kettl, 2000; Wollmann, 2004; Downe et al., 2010).

This decentralization process was experienced by local authorities, not without difficulty, so much so that many Municipalities found themselves in severe financial crises.

On the issue of the possible consolidation strategies, the various European countries adopted contradictory policies that went from extraordinary state contributions to allowing an independent consolidation management.

On this point, the doctrine is unanimous in highlighting that any state intervention in support of local bodies undermines their managerial autonomy and, at the same time, leads to a weakening of the principle of governance responsibility (Handler, 1986; Carter, 1989; Von Maravić, 2008; Power, 2007; Grace, Martin, 2008).

In Italy, the dilemma between State support and managerial autonomy has not been completely resolved, given that, despite the introduction of the financial collapse, conceived as an autonomous process of recovery, there have been state funds intended for that purpose.

In order to contribute to the solution of the problem, the results of the present study were particularly significant and significant reflections can be derived.

First of all, this analysis has showed how instability did not derive from exceptional situations, but was rather the result of an improper financial management having deep roots and caused by wrong strategic choices, critical situations inherited from the past, excess of cash advances, consistent off-balance debts.

At present, the recovery procedure has not yet ended, given the lack of the financial resources needed to cover the remaining liabilities. The relevant financial needs, of EUR 223.79 million, are likely to cause a "collapse within the collapse" of the local body. This demonstrates the inability of the local governance to manage the administrative recovery independently and promptly.

These problems, in our opinion, are due to the difficulty to manage simultaneously and to put on the same level the current needs that the Municipality must perform with the needs for recovery of the financial crisis.

The management inefficiencies of the insolvency procedure produced significant effects on the local economy, as demonstrated by the empirical analysis above that allowed to assess both the economic losses suffered by the different economic players residents and operating in the area in question, amounting to

EUR 100,99 mln, both an high mortality rate of enterprises admitted to insolvency procedure.

In particular, the analysis revealed a significant difference between companies that have transacted their credits, of which 41% (voluntarily and / or forcedly) went out of business, and companies that are waiting for the definition of their credit position, of which only 3 of 29 have voluntarily closed down their economic activity. The deepening carried out on these latter showed that the data observed are related to companies operating mainly in the banking sector and to enterprises of medium-large size operating with different public administrations.

Companies that better faced the economic effects of the financial collapse are those who have transferred their business outside the Province of reference or diversified their economic activity from the original one. The higher mortality rate is recorded by the manufacturing sector and by the sole proprietorships.

We believe, therefore, that the choice for an autonomous management of the insolvency procedure is correct, since it raises the governance responsibility toward a greater efficiency, but at the same time the legislation is not effective enough about the reorganization ways and the related timing of closure.

In order to limit the economic impact on local economies, it would be desirable that companies adopt proper strategies of product and market diversification, and that the Central Government introduce more incisive instruments of control on the timing of closure of the recovery procedure.

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