The Management of the Financial Collapse of Local Bodies and its Economic Impact: The Case of the Municipality of Taranto

Mario Turco

The present work aims to offer a contribution to evaluate whether to adopt strategies based on state support or, alternatively, on the managerial autonomy of local bodies in financial trouble. The research, after analysing the main guidelines at European level, presents the results of an empirical investigation on the economic effects produced on 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, economic effects

1. 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 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.

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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.

The paper is structured in six sections with an introduction to the study provided in this section. In the next section, the paper analyzes the literature status on the theme of crisis of local authorities. It explains, then, in section three, the methodological approach followed in performing the analysis and in section four it discusses about the European orientation in terms of the dilemma between state support and autonomy of local management in managing the financial crisis of local. Finally, in section five, the paper provides the result of an empirical research carried out on the survival status of enterprises involved in the financial collapse of the Municipality of Taranto, in order to analyze the effect produced by the financial collapse of a local body that followed the approach of local autonomy in the management of the financial trouble. A conclusion and recommendations are provided in section six. This final section deals with the managerial implications and suggestions for further studies.

2. 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.

3. 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.

4. 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 2004; 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, 2005).

The introduction of such instruments oriented to an effective management required the adoption of complex reporting and measurement instruments as to accountability and management control (Parker, Gould, 1999; Bac, 2010; Brusca, Montesinos, 2010; Turco, 2004; Turco, 2011).
In order to support the decision-making processes of the 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; Bac, Vesper 2002; Stanley et al., 2008; Mack, Ryan, 2007; Bac, 2010; Brusca, Montesinos, 2010; Tooley et al., 2010; Turco, 2014).

In this new scenario, the survival of the local public bodies depends largely on the management and administrative abilities to maintain, over time, the conditions for an 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) (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 an increased administrative autonomy (Council of Europe, 2010).

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

The measures introduced, together with the inability of many local governments to control the implemented changes, have, unfortunately, led to an impoverishment of the financial resources of the 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 that declared their financial difficulty between 2012 and 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 adopted 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).

All these studies are based on the assumption 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 to support the local bodies in critical situations is complex. The financial rescue of the local governments in financial distress poses, indeed, a strategic dilemma, to the central government and 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 also be taken into account that the advantages for the local community can be considered a special and individual interest, damaging the interests of the national community as a whole (Horst, Douglas, 1997).

Of course, at local level can be found two opposed needs: on the one hand, there is the need for 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 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 the extraordinary state funding in favour of local governments in financial trouble, 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 ended up causing serious financial difficulties to such an extent that the same governments were forced to eliminate or limit the measures of financial support.

In most European countries, however, there are specific regulations on the support to local bodies in financial difficulty and, in most cases, the local bodies must possess certain conditions to access the aid (Council of Europe, 2002, p. 37).

The parameters generally used to ascertain the financial condition of the local bodies are linked to the ratio between debt and 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 autonomy of local bodies in the management of 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.

5. The Analysis Results: The Survival State of the Enterprises in the Province of Taranto Eligible for Admission to the Insolvency Procedure

The local administration in financial distress, subject of the present investigation, is the Municipality of Taranto, which started its recovery procedure in the far October 2006 (Commissioner’s decision no. 234/2006), a procedure that is still ongoing after almost nine years since its beginning.

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

The first aspect of the investigation concerned the survival rate of the enterprises in the Province of Taranto admitted to the insolvency procedure and the various strategies they adopted to deal with the economic effects deriving from the recovery procedure. The reference period of the research dates between October 2006 (default date) and 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 in 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 the firms settled.

5.1 The Survival Rate of the “Settled” Enterprises

In reference to settled enterprises, that is the enterprises resident in the Province of Taranto that had their credit positions towards the local administration settled through a transaction, the universe under observation consisted of no. 317 enterprises by 31 August 2012 (see table 1).
Table 1: Credits settled Through transaction in the Province of Taranto According to Type of Creditor (Values in eur)

<table>
<thead>
<tr>
<th>Type of Creditor</th>
<th>Nr</th>
<th>Par value</th>
<th>Paid Value</th>
<th>Economic loss credits</th>
<th>Credit paid (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses</td>
<td>317</td>
<td>155,328,072</td>
<td>77,347,766</td>
<td>77,980,305</td>
<td>49.77%</td>
</tr>
<tr>
<td>Professionals</td>
<td>370</td>
<td>11,221,174</td>
<td>3,749,507</td>
<td>7,471,666</td>
<td>33.03%</td>
</tr>
<tr>
<td>Individuals</td>
<td>1,733</td>
<td>19,814,223</td>
<td>6,727,942</td>
<td>13,086,281</td>
<td>33.84%</td>
</tr>
<tr>
<td>Public bodies or publicly-owned companies</td>
<td>84</td>
<td>5,168,033</td>
<td>2,882,643</td>
<td>2,285,390</td>
<td>54.90%</td>
</tr>
<tr>
<td>Others</td>
<td>84</td>
<td>308,617</td>
<td>132,351</td>
<td>176,265</td>
<td>42.87%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,588</strong></td>
<td><strong>191,840,119</strong></td>
<td><strong>90,840,209</strong></td>
<td><strong>100,999,907</strong></td>
<td><strong>47.34%</strong></td>
</tr>
</tbody>
</table>

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 the present investigation, consists of settled enterprises resident in the Province of Taranto.

Excluded from the sample are businesses holding credits lower than EUR 10 thousand and enterprises with public participation, for a total of 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).

Table 2: The Population and the Sample of The settled enterprises in the Province of Taranto (Values in million eur)

<table>
<thead>
<tr>
<th>Type of Creditors</th>
<th>Enterprise number</th>
<th>Credit Par value</th>
<th>Settled value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total settled enterprises, of which:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Settled enterprises with credits higher than 10,000 EUR</td>
<td>105</td>
<td>71,381,841.07</td>
<td>31,462,791.04</td>
</tr>
<tr>
<td>b) Settled enterprises with credits lower than 10,000 EUR (+ 9 publicly-owned enterprises)</td>
<td>212</td>
<td>83,946,231.11</td>
<td>45,884,975.27</td>
</tr>
</tbody>
</table>

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

The analysis of the sample of 105 enterprises carried out on 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 still active (59% of the sample); 11 were undergoing an insolvency procedure (10%); and n. 32 (31%) had voluntarily ceased their economic activity, n. 5 of which even before the financial collapse.

The greatest number of (voluntary and forced) closures took place between 2010 and 2013, with the highest number in 2010 (see table 3).
Another aspect we took into consideration was whether the survival state of settled enterprises was influenced by the transfer of their residence and / or operation outside the Province of Taranto, a change they considered necessary to better face the economic effects produced by the collapse.

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>
<thead>
<tr>
<th>Active enterprises</th>
<th>Liquidation procedures</th>
<th>Voluntary Closures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident and operating in the Province of Taranto</td>
<td>35</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>Resident and operating outside the Province of Taranto</td>
<td>19</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Not resident and not operating in the Province of Taranto</td>
<td>5</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Not resident but operating in the Province of Taranto</td>
<td>3</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Resident and operating in and outside the Province of Taranto</td>
<td>9</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>62</td>
<td>11</td>
<td>32</td>
</tr>
</tbody>
</table>

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.
This winning strategy was confirmed by the data concerning the 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 state 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 closures or insolvency procedures (see table 5).

**Table 5: Relation Between Survival State and Change of Economic Activity of Settled Enterprises of Taranto**

<table>
<thead>
<tr>
<th></th>
<th>Active</th>
<th>Liquidation procedure</th>
<th>Closures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same business activity</td>
<td>39</td>
<td>10</td>
<td>27</td>
<td>76</td>
</tr>
<tr>
<td>Change of activity</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Expansion of activity</td>
<td>18</td>
<td>0</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>62</strong></td>
<td><strong>11</strong></td>
<td><strong>32</strong></td>
<td><strong>105</strong></td>
</tr>
</tbody>
</table>

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.

Another aspect under investigation was the influence of the legal form of the companies on their survival state. 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 State and Legal Form of Settled Enterprises**

<table>
<thead>
<tr>
<th></th>
<th>Limited companies</th>
<th>Partnerships</th>
<th>Individual firms</th>
<th>Cooperative enterprises</th>
<th>Others *</th>
<th>Tot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active enterprises</td>
<td>36</td>
<td>4</td>
<td>8</td>
<td>11</td>
<td>3</td>
<td>62</td>
</tr>
<tr>
<td>Liquidation procedures</td>
<td>7</td>
<td>3</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>11</td>
</tr>
<tr>
<td>Voluntary closures</td>
<td>9</td>
<td>5</td>
<td>17</td>
<td>1</td>
<td>0</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>12</strong></td>
<td><strong>25</strong></td>
<td><strong>13</strong></td>
<td><strong>3</strong></td>
<td><strong>105</strong></td>
</tr>
</tbody>
</table>

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

Table 7: Relation Between Survival State and Economic Sector of Settled Enterprises

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Active enterprises</th>
<th>Liquidation procedure</th>
<th>Voluntary closures</th>
<th>Tot</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and related activities</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Manufacturing, energy, etc.</td>
<td>9</td>
<td>1</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>Building</td>
<td>10</td>
<td>7</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td>Commerce</td>
<td>8</td>
<td>2</td>
<td>8</td>
<td>18</td>
</tr>
<tr>
<td>Tourism</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Transport and Shipping</td>
<td>4</td>
<td>0</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Insurance and Credit</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Enterprise services</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td>10</td>
</tr>
<tr>
<td>Care services</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>13</td>
</tr>
<tr>
<td>Other services</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total classified enterprises</strong></td>
<td><strong>66</strong></td>
<td><strong>11</strong></td>
<td><strong>32</strong></td>
<td><strong>105</strong></td>
</tr>
</tbody>
</table>

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 sector that showed the highest survival rate was that of care services, with 13 companies still operating. This can be explained by the fact that these companies continued 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 (Values in million eur)

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

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

The analysis concerned, initially, the survival of the enterprises under investigation, i.e. 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 closures were most frequent was the year of the collapse, namely 2006 (see table 9).

Table 9: Survival State of the Unsettled Enterprises of Taranto

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active enterprises</td>
<td>27</td>
<td>27</td>
<td>27</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Liquidation procedures</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Voluntary closures</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
<td>29</td>
</tr>
</tbody>
</table>

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.

Furthermore, we investigated the relationship between the survival state of the unsettled enterprises and their maintenance of 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 even outside the territory of reference (see table 10).
Table 10: Relation Between Survival State and Residency-Operativity of the Unsettled Enterprises of Taranto

<table>
<thead>
<tr>
<th></th>
<th>Active enterprises</th>
<th>Liquidation procedure</th>
<th>Voluntary closures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident and Operating in the Province of Taranto</td>
<td>23</td>
<td>0</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>Resident and Operating outside the Province of Taranto</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Not resident and not operating in the Province of Taranto</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Not resident but operating in the Province of Taranto</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Resident and Operating in and outside the Province of Taranto</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26</strong></td>
<td><strong>0</strong></td>
<td><strong>3</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

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, even in this case, 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 State and Legal Form of Settled Enterprises

<table>
<thead>
<tr>
<th></th>
<th>Limited companies</th>
<th>Partnerships</th>
<th>Individual firms</th>
<th>Cooperative companies</th>
<th>Others (*)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active societies</td>
<td>13</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>26</td>
</tr>
<tr>
<td>Liquidation procedures</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Ceased companies</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
<td><strong>4</strong></td>
<td><strong>8</strong></td>
<td><strong>3</strong></td>
<td><strong>1</strong></td>
<td><strong>29</strong></td>
</tr>
</tbody>
</table>

* 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 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 State and Economic Sector of The Unsettled Enterprises of Taranto

<table>
<thead>
<tr>
<th></th>
<th>Active enterprises</th>
<th>Ceased enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and related activities</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Manufacturing, energy, mining enterprises</td>
<td>2</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Building</td>
<td>4</td>
<td>0</td>
<td>4</td>
</tr>
<tr>
<td>Commerce</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Tourism</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Transport and Shipping</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Insurance and Credit</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business services</td>
<td>6</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Care services</td>
<td>6</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Other services</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Total classified enterprises</td>
<td>26</td>
<td>3</td>
<td>29</td>
</tr>
</tbody>
</table>

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 survival state, enterprises that expanded or modified their entrepreneurial object, by adopting diversification strategies, showed a very good survival performance, differently from those that maintained their original activity (see table 13)

Table 13: Relation Between Survival State and Change in Economic Activity of Unsettled Enterprises of Taranto

<table>
<thead>
<tr>
<th></th>
<th>Active enterprises</th>
<th>Ceased enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Same activity</td>
<td>17</td>
<td>3</td>
<td>20</td>
</tr>
<tr>
<td>Change of activity</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Expansion of activity</td>
<td>8</td>
<td>0</td>
<td>8</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>3</td>
<td>29</td>
</tr>
</tbody>
</table>

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

6. 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).

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 allocated for that purpose.

The results of the present study can be considered both as a particularly significant contribution to the solution of the problem and an interesting starting point for further reflections.

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

At present, the recovery procedure is still ongoing, 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 Municipality of Taranto. This demonstrates the inability of the local government to manage the administrative recovery independently and promptly.

These problems, in our opinion, are due to the difficulty to manage simultaneously the current public needs of which the Municipality is in charge with the needs for recovery of the financial crisis.

The ineffective management 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 actors residents and operating in the area in question, amounting to EUR 100,99 mln, and the high mortality rate of the enterprises admitted to the insolvency procedure.

In particular, the analysis revealed a significant difference between the companies that settled their credits, of which 41% (voluntarily and / or forcedly) went out of business, and the companies that were still waiting for the definition of their credit position, of which only 3 out of 29 had voluntarily closed down their economic activity.

The in-depth analysis carried out on these latter showed that the data observed concern companies operating mainly in the banking sector and medium-to-large sized enterprises working for different public administrations.

The companies that better faced the economic effects of the financial collapse were those that transferred their business outside the Province or changed their economic activity. The
higher mortality rate was 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 for closing the procedure.

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 introduces more incisive instruments to control the timing for closing the recovery procedure.

The research results allow both: to evaluate the advantages due to the extraordinary financial support for relieving local economies in financial troubles; and to justify the introduction of new legal institutions granting full autonomy to local bodies for managing the recovery procedure, like the multi-annual rebalancing, introduced in Italy by Law 213/2012, as an alternative to the insolvency procedure.

Additional contributions of the study are the opportunity to encourage a responsible behaviour based on the efficiency of public administrations, and to promote responsive strategies by businesses involved in the default of a public administration.

Main drawbacks of the empirical research pertain the research sample, limited to corporations, as well as the measurement indicators chosen. These latter, in fact, concerned only the survival state and the strategies adopted by the enterprises taken into consideration.

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