

# Public Organizations and Local Rural Development: an Empirical Analysis

By: Carmelo Cannarella  
C.CANNARELLA@IMC.CNR.IT

Valeria Piccioni  
V.PICCIONI@IMC.CNR.IT

## Abstract

This paper describes an empirical approach designed and adopted to analyze and qualify the role of some public agencies devoted to rural development. These public organizations operate as critical agents in managing local public goods within a complex relation system functioning on a rural area. On the bases of the experiences and observations made on a case study in Central Italy, it emerges an analytical framework deriving from the correlation of an objective and subjective perspectives in the evaluation of these organizations' performances. From these correlations, it derives a model to empirically classify these agencies evaluating also their potentials in creating integration, condensation and amalgamation phenomena based on trust, efficiency and effectiveness and their eventual potentials in determining positive impacts for the rural areas in which they operate.

## Key Words

Public organizations, rural development, trust, efficiency, local public goods

## 1. Introduction

The aim of this study is the analysis of the role of some public subjects devoted to support and boost local rural development, as critical components of a complex, continuing evolving, territorial relation system. These Public Organizations for Local Rural Development (POLRDs) are here defined as public entities, often special agencies or services of major public authorities at local, regional, national and European level, having a significant technical nature and producing goods/services, transferable to territorial rural agents, focused on public interests.

This complex relation system, based on a network of various types of human interactions (i.e. social or business relationships), multi-goals and multi-expectations between agents, represents the "context" within which POLRDs operate *in vivo*. A possible interpretation of properties and functioning of such a system can be provided by some theoretical models described in literature (Bollobàs 1998, Bouchaud and Potters 2000, Mantegna and Stanley 2000, Albert and Barabási 2002, Newman 2003). These models have been developed for the description of phenomena distinctive of other disciplines but they hold interesting analogies (and useful interpretative keys) with the present analysis. These models of networks may outline the description of a network's structure biased on cohesive blocks and groupings and prototypes for the measurement of "cohesion" and "embeddedness" in their links (relations, imitations, synergies, alliances, etc.) derived from graph based concepts.

The analysis of the mechanisms at the base of the creation, development and enforcement of this network (and on the contrary its obstacles and failures) may contribute to understand and interpret the paths through which knowledge can become more productive, transforming Knowledge Centers (SMEs, research centers, local development institutions, innovation supporting agencies, etc.) into Knowledge Networks through the improvement of the interconnections (edges of the system) among these different local nodes (vertices of the system) of expertise. A POLRD is thus one of the possi-

ble agents in the system whose evolution may depend on a wide range of parallel processes: i.e. new vertices (agents) are added to the network or the attachment of new vertices.

Local rural development dynamics (at economic, social and political level) change during the time course making the context in which these public agents operate a rather fluid framework. All the agents involved into the system tend to consequently modify and adapt strategies and behaviours to the changed scenario, thus contributing to produce further modifications to the context. In theory behaviours and performances of these POLRDs should be correspondingly rather fluid: using analogies from complex system theories, one could say that responses from these organizations can highly vary according to their integration strength. At a first level a POLRD may show so weak connections to activate certain rates of occasional and selective "escape" from the system in which the organization operates. The second level is condensation, that is to say a transition from a state in which the organization has low interactions to a state where it forms with other agents an entity characterized by a substantial interaction and cohesion. The third level is amalgamation when links of cooperation, cohesion and exchange that agents establish are greatly enhanced. In this case local development is carried out through a sort of melting pot mechanism in which agents work together showing a relevant coordination and significant magnitude in "mixing" their activities. Different integration strength contributes to the creation of local networks characterized by the presence of "hubs": dominant hubs in the system are those showing a large number of paths in the network, accordingly to a power law, passing through these hubs while other vertices will show only a few edges. This phenomenon results from processes leading to the formation of networks not based on random attachment of new vertices but rather on some type of 'preferential attachment', that is to say that agents may detain a certain preference for example for the more connected vertices or showing certain types of connections (Vazquez 2003). Within these

processes Positive Word of Mouth (PWOM)/Negative Word of Mouth (NWOM) may have a profound effect on relation patterns because PWOM/NWOM may increase/decrease a POLRD's evaluation, influence imitative processes and contribute to a POLRD's success/failure to meet its expected results.

This is theory. It should be explained how a POLRD may contribute to produce *de facto* substantial benefits improving, in a large extent, the wealth levels of a rural area through its activities while intervening in specific aspects of the economic and social life of the territory (employment, innovation, new technologies, environment protection, local products' promotion, quality, business support, training activities, tourism and recreation initiatives, etc.). These organizations intervene (or interfere, as some critics affirm) in a rural area for example:

- + implementing global rural development strategies (also in cooperation with other public authorities)
- + making research and statistical activities about the current status of local economy and society
- + doing local promotion and marketing
- + supporting local tourism
- + investing in infrastructures
- + supporting and expanding employment
- + supporting technological and innovation transfer and scientific partnerships
- + supporting SMEs
- + supporting socio-cultural activities
- + developing territorial labels
- + making training activities
- + promoting distribution and marketing of local products
- + supporting special initiatives for specific groups (young, women, disable persons, etc.).

The aim of this study is not to demonstrate whether the presence of POLRDs in a rural area is a right option or not or whether the markets can or cannot work in support development, but rather to highlight the role and weight of these organizations in determining "quality" and impact of rural development processes in which they are involved helping markets to properly function.

The present study derives from research activities within the project "Development Dynamics and Increases in Competitiveness of Rural Areas" (DICRA) resulting from an agreement between the Research Team on Development and Innovative Processes at the Institute of Chemical Methods (I.M.C.) of the National Research Council of Italy (C.N.R.) and the Municipality of Vitorchiano (a 4000 inhabitants village in the province of Viterbo, about 100 km north of Rome in Central Italy). Project DICRA has been designed to funnel, through the development of constantly updated relation networks, expertise, know how, experiences and capabilities from different agents placed in very different dimensions and showing different nature (individuals, families, communities, firms, public institutions, research centres, etc.) all acting within a given rural area. The rural area selected for the project is characterized by traditional agricultural activities, small scale industries and mining activities being exposed to consistent migration flows from urban centers (Viterbo, 55.000 inhab. distance: 7 km - Rome 4m. inhab. distance: 100 km) with consequent specific residential problems and coexistence of consolidated agricultural vocations with semi-urban issues and needs. The territory is coping with a complex transformation process affecting economic, human and environmental resources with peculiar impacts in environment, employment and administrative management. The coexistence of a theoretical and an operational side in the project is essentially directed to implement and test these models thanks

to continuous adjustment processes in which they could be constantly transformed and potentially improved also to optimize strategies and tools to a) develop realistic collaboration networks; b) strengthen these networks and evaluate their effective impacts and c) evaluate and improve the integration capability of some focal subjects in the system.

## 2. Conceptual framework

### 2.1 An objective analytical level

The conceptual framework this study refers to is composed of two analytical levels the first of which directed to the identification of the POLRDs' objective features deriving from their declared activities, organization and scopes. This level can be described identifying four basic questions: a) Why; b) Who; c) What and d) How.

a) Why - The reasons for the presence of POLRDs in a rural area are in the expressions of a government's activist approach to development, promotion of interregional equity, social justice and provide solutions to and correct market failures (when markets do not reflect the full costs and benefits of development) which may create pressures on a rural area (society, economy and environment). Theoretically, this presence is justified on the ground that they should contribute to improve economic, environmental and social efficiency and therefore the welfare of local communities (North 1990, Halkier et al. 1998, Hughes 1998, Danson et al. 2000, Burnside and Dollar 2000, Clower et al. 2004).

Governments support POLRDs' presence because it may generate positive externalities at local level assuming that market efficiency and total welfare can be improved through their interventions thanks to material and non-material "incentives" or "subsidies".

b) Who - Synthetically, a POLRD's anatomy can be drawn through the analysis of its vertical and horizontal structure and organization (offices, departments, working groups, etc.), budget, number of employees, declared missions, scopes and operational fields, tasks (task relations, task decomposition, subtasks) etc. (Hall 1968, Galbraith 1973, Corkill and Lander 1998, Daft 2001, Townley et al. 2003, McNulty and Ferlie 2004). The implementation of activities and the achievement of objectives require a structured and well-defined set of "protocols" to be followed by the identification of the various components of the POLRD's organization outlined on the base of roles, responsibilities, relationships and procedures for each POLRD's component also to standardize and coordinate the work of many individuals (managers and operators).

c) What - The essential core of a POLRD's activity is always linked to the provision of goods and services dealing with "public goods". Literature provides a wide range of studies about this issue (Samuelson 1954, Milleron 1972, Champsaur et al. 1975, Thomson 1999, Bloise et al. 2002, Rege 2004), from which it is possible to identify three interrelated characteristics of "public goods": 1) they generate significant externalities; 2) they are at a considerable degree "non-rival" and "non-excludable" and 3) they create opportunities for the enhancement of welfare through collective actions.

In particular POLRDs are more concerned with "local public goods" which differs from other public goods for their more limited geographical reach of the benefits conveyed. These local public goods are a class of public goods connected to regional and national goods whose production requires a cross-area collective action (that can engage neighbouring territories also

from different administrative regions) for the presence of cross-area problems and cross-area externalities (Reese 1997, Beer and Maude 2002, Beer, Haughton and Maude 2003). Local goods are managed by a POLRD through two macro-actions: the former involves activities focused on business development increasing the number of firms in the area or supporting the development of the existing ones. The latter encompasses capacity building initiatives which in theory should be aimed to create a widespread impact for the territory as a whole, increasing capabilities and the general quality of life standards. In some cases a POLRD is likely to be specifically designed to clearly pursue activities included in one of these macro-groups while in others activities are chaotically mixed within the same POLRD: this confusion may be also deliberately created to increase the "legitimacy" degree of the organization and to better justify, with a wider and not well defined openness towards all the possible intervention levels, its existence on the market of development support.

These activities materialize different forms of incentives/disincentives to stimulate development which may operate as direct subsidies (i.e. financial contributions) or indirect subsidies (consulting, training and other services) whose effectiveness may also vary in the time course. In this way, POLRDs operate their "obtrusive approach", as critics label it, in directing resources, subsidizing certain firms, granting special tax breaks for some and not for others and creating a network of regulatory incentives and disincentives which affect behaviour in the economy. These interventions may create favourable and stimulating conditions but also distortions by failing to correct development failures or by creating them or making them worse. In this case, the result is a POLRD's policy failure which highly differs from a market failure: a policy failure consists of distortions created by an active POLRD intervention (i.e. a subsidy) while a market failure (externality) implies a lack of a POLRD intervention.

We here assume that, given the characteristics of the goods/services provided by these organizations, their interventions acquire the nature of "subsidy" defined as any policy that creates forms of economic/non economic, material/non material transfer through market mechanisms (Bingham and Bowen 1994, Feiock, Dubnick and Mitchell 1993, Goss and Phillips 1977) (table 1).

Table 1 Classification of POLRDs' subsidies

Budgetary subsidies	a) direct subsidies - grants or payments or producers b) budgetary effect of tax policies – exemptions, allowances, exclusions, deductions, preferential tax treatment, etc.
Public provision of goods and services below cost	Provision of infrastructure and complementary services and government R&D expenditure
Capital cost subsidies	Preferential loans, debt forgiveness, etc.
Policies creating transfers through the market mechanism	Quality controls, regulations, legislation.

The key question is how to evaluate whether the policies, at the base of these forms of material or non material subsidies (including the POLRD's presence itself), are actually functioning according to their original scope or have become counter-productive or at what cost and with what effect on local development. The analytical knot is therefore how to distinguish a positive (beneficial) intervention from an ineffective or a negative one comparing actual results within the local context with the original declared goals. Some interpretative keys can derive

from the analysis of the impacts on the context according to economic (i.e. increases in GDP), environmental (i.e. better management of natural resources) and social (i.e. wealth distribution between small and big farmers) parameters. However reforming or removing incentives or a POLRD can become a very complex issue: it is easier to introduce forms of direct or indirect material/non material support than to remove one because it creates fierce opposition from those groups that benefit from them even in case of adverse incentives or ineffective agencies which may have negative impacts on the economy as a whole and on the welfare of a larger part of the society (damage to public goods, negative impacts on global employment, economic losses, etc.).

## 2.2 A subjective analytical level

Translating local potentials into actual resources implies that these organizations, through their administrative, professional, financial and operational capabilities, materialize the logic connections between, Why, Who and What with a variable impact degree due to How factor. Of course, we have to admit that this impact degree may highly vary according to the problematic intensity scale of the issues the POLRD is designed to cope with and the financial and human resources available.

A POLRD's operational behaviour is linked to its objective structure and to a number of subjective endogenous and exogenous factors. Separating internal and external dynamics of a POLRD is an extremely difficult task because the observable behaviour of a public agency reflects the mechanisms governing the internal interactions between the organization's components and the effect of external "perturbations". The magnitude of these external perturbations cannot be explicitly controlled and the impact of the external modifications on the POLRD's activity cannot be completely removed to gain "pure" insights into the internal dynamics of an organization. The operative dimension of a POLRD is a constant exchange of internal relations linked to visions, interests, approaches, values, expectations, opinions, etc. shared by staff and managers directly reverberating into the organization's operational side. A POLRD has not a "natural" attitude towards rural development. Sometimes, static conditions, opposition to change, resistance to innovations are not simply due to ignorance or indolence of rural communities and individuals: causes and responsibilities of many experiences

of failure or very limited success in rural development programs can be caused also by the incapacity of a POLRD to activate constructive relations, presence of a superiority and too bureaucratic mind or a scarce predisposition to learn from experience. A parallel analysis about for example adaptation times, gratifications, motivations and general job satisfaction, sensibility to problems, sense of responsibility, etc. becomes essential to draw the POLRD's "subjective" profile and to identify eventual

critical points highlighting: a) POLRD's values and priorities; b) characteristics of POLRD's "culture"; c) prevailing mentalities; d) characteristics of decisional and management processes; e) approaches and methods used by the staff and f) the "climate" (perceptions and feelings of management and staff).

This subjective profile makes the implicit goals of the individuals operating within the POLRD more evident and it may denounce their eventual collision with the formal organizational patterns. Formal organizational configurations tend to be static

due to bureaucracy's effects which structure staff and functions to achieve the declared goals. Staff and managers have to cope with living experiences made of concrete problems, adaptive attitudes, compromises, etc. A POLRD will tend to achieve a sort of equilibrium between these two forms and resist to excessive unbalances: nonetheless empirical evidences can show that the presence of a gap is in some extent essential for a POLRD to cope with changed situations and a continuing evolving scenario. Working rigidly to the rules could cripple the POLRD and its mechanisms won't work as expected.

This condition creates a vast web of possible, extremely difficult to analyze, interactions between the POLRD and its users based on a certain degree of uncertainty depending on the characteristics of the context but also by the POLRD's performances, efficiency, responsibility, effectiveness, its degree of "indifference" towards the rural area's needs and its authority. For the aim of this study, this concept of POLRD's "authority" plays a critical role: it can formally result from for example type/types of public goods managed, a collective action, a hierarchical organization, norms and regulations, etc. (Artoni 1993, Cassese 1994, Lanzalaco 1995, Donolo 1997), but, in its substantial form, it depends on trust. A trust-based relation allows a POLRD to support its formal authority with a substantial one (Dasgupta 1988, Seligman 1997, Ganesan and Hess 1997, Nooteboom 2000, Glaeser et al. 2000, Bachmann 2001, Sigmund, Fehr and Nowak 2002, Smallbone and Lyon. 2002).

This trust-based relation network results from a wide variety of behaviours and strategies local agents adopt often reflecting the characteristics of the context where they operate: trust works as a tool to reduce uncertainty and risk margins both at rational and at irrational levels in relational transactions. Reputation is a first source of information useful also to establish the degree according to which similar future options will be made (erosion/consolidation of reputation). For the aim of this study, three types of trust have been identified:

- + personal trust – deriving from direct knowledge of a specific person in the POLRD based on individual reputation and informal norms;
- + collective trust – deriving from direct knowledge of a group of individuals in the POLRD based on staff reputation and shared conventions;
- + institutional trust – deriving from direct/indirect knowledge of the POLRD considered as an anonymous source of information based on definite norms, regulations, roles and procedures.

These forms of trust operate within three interrelated problematic dimensions:

- + a macro-level – the global context composed of political, juridical, legal, economic, social and cultural elements;
- + an intermediate level – groups and associations, trade unions, etc.;
- + a micro-level – personal behaviour and values.

These dimensions and forms of trust contribute contemporaneously and dynamically to determine attitudes and behaviours of the economic and institutional agents, individuals, communities and, above all, their potentials in developing local relation networks on the base of stable information: for instance, in case of inefficient norms and regulations, personal and collective trust can compensate at micro or intermediate level a lack of institutional trust or a syndrome of "institutional mistrust" at macro level.

A rural area could be identified as a "low trust level context" when agents perceive a sense of restriction, obstacles in starting new activities, a limited free and correct competition and

the presence of certain subjects with privileged positions: on the contrary, a "high trust level context" should be considered an opposite environment. In the creation of this environment, POLRDs can play a primary role deriving from: a) previous negative/positive experiences of organization services' users; b) opinion and visions provided by others (PWOM/NWOM); c) institutional reputation and d) managers' and staff reputation.

From marketing research, we learn that NWOM is more influential than positive one and its spread occurs on a faster time scale than the direct contact with a POLRD's good/service. In particular marketing literature identifies some main characteristics of NWOM: it is more informative than positive word of mouth, and thus may have a stronger effect, and it may be contagious and spread independently of exposure to the POLRD's good/service (Herr, Kardes and Kim 1991, Marquis and Filiatrault 2002). If an agent is in contact with a POLRD and the quality of the POLRD's services are equal or higher than the agent's expectations, then the POLRD's interaction "strength" and trust are enhanced by a PWOM which "percolated" successfully through the network and, empirically, by an increase in the size of the service's adoption cluster (Solomon et al. 2000). If the POLRD fails to meet the user's expectations and standards, not only the agent will tend to ignore the POLRD's goods/services but the related information will be passed to the agent's neighbours: a sense of "disappointment" will be at the root of NWOM and disappointment casts a "cloud" of NWOM around it. Increase of resistance and mistrust happens instantly, before any further exposures of new agents to the POLRD's service are considered: if the agent experiences negative relations with a POLRD, its disappointment is immediately cast upon all its non-adopting neighbours because NWOM propagation requires just one conversation with one friend while a contact with a POLRD is an unavoidably slower process.

To be effective, a POLRD has to continually gain trust among its users both through its capability to meet its obligations (the organization does what it publicly affirms to do) and from the idea of "integrity" perceived by the individuals resulting from the procedures' and operational activities' transparency.

### 3. Methods adopted and results

For the present study, short questionnaires and brief interviews have been adopted and submitted to a rather restricted group of individuals (15 units) composed of POLRDs' members, farmers and entrepreneurs used and not used to have contacts with POLRDs. These questionnaires have been supported by frequent informal talks with the respondents to obtain more independent information about these topics. Of course all this implies a certain degree of subjectivity but in the creation and consolidation of the substantial authority individual and collective prejudices can play a not secondary role compared to the more institutional factors of the issue. Given the very limited dimension of the sample-group of respondents, it has been decided not to adopt a statistical approach to the resulting information but rather to use these data to articulate some pragmatic and empiric-based observations.

Several public agencies and institutions operate, in a way or another, within the selected rural area: in particular five POLRDs affiliated or depending on principal public institutions and funding (Lazio Regional Administration, Chamber of Commerce, EU rural development programmes, etc.) focused major attention.

### 3.1 POLRDs' classification

These five organizations have been classified identifying and separating their formal features and substantial characteristics.

Formal features encompass inner norms and procedures, organizational structure, budget, mission and goals, declared services, power (weight in terms of political inward and outward influence, public relations). Substantial characteristics derive from the quality of norms and procedures (complexity and transparency), technical skills and competence of staff and managers, methods and practices adopted to select and motivate the staff and personal, collective and institutional trust and reputation perceived by the POLRD's users.

These data outline two corresponding perceived forms of authority: a formal and a substantial authority correlated in the diagram of figure 1. This diagram identifies four categories useful to classify a POLRD.

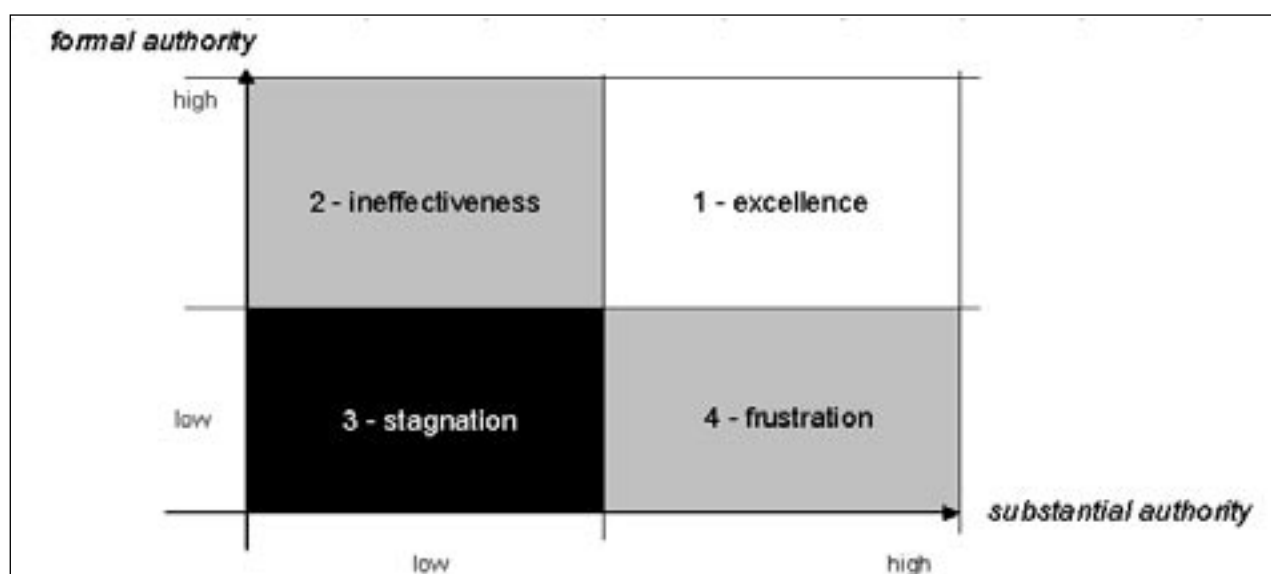


Figure 1 – Formal and substantial authority

Area 1 – High formal and substantial authority: this is a condition of excellence because the POLRD has juridical, technical and financial resources and skills, reputation and capabilities to produce positive impacts.

Area 2 – High formal authority but scarce substantial authority: in this case the POLRD detains financial resources and a solid bureaucratic structure, power and just connections with political entities but it shows weak trust relations with its users contributing to its ineffectiveness (scarce, negative or no impact on the rural territory).

Area 3 – In this case the POLRD has insufficient financial tools, scarce capabilities and skills, a weak structure: it is coping with a confused and chaotic legal framework and users show mistrust towards this POLRD which is ineffective, inefficient, stagnant and immobile. This kind of POLRD is highly auto-referential and it survives just to socially and economically preserve its management and staff status.

Area 4 – these POLRDs detain scarce financial and technical resources but its management and personnel, even if frustrated for the inadequacy of resources, have reputation and gain trust in the local people which acknowledge their skills and capabilities.

In this case-study, all the five POLRDs are included in area 2: their activities are likely to produce limited impact in the area and their initiatives found very "mild" responses and scarce institutional trust (sometimes compensated by personal or collective trust) by the respondents. From the "demand" side:

"It is not clear to me scopes and mission of that agency". "If you haven't the right contacts there, nobody will help you. They support only their friends". "They are scarcely committed to listen to me and understand my real problems. It is quite frustrating and discouraging to cope with that organization; it is better to find support somewhere else". "In theory, that organization makes a lot, but when I went there I realized that in practice, it organizes only training courses". "Too bureaucracy, personnel is too cynic and think to its immediate interests". "I cannot waste my time with them". "Staff and managers are very good people but they cannot do much for me". "Procedures are too complicated, forms are unclear".

From the "supply" side:

"We 'must' carry out certain activities (on paper) because we 'must' spend money otherwise next year funds will be cut". "If you want to enhance the possibility to finance your project, you must use words like "innovation", "local development", "rurality", "technology"

etc. no matter for the real contents. Now these terms are in vogue. Just mention them to satisfy the formal features of the project as our bosses require". "Our organization is composed of public and private partners and we don't welcome interfer-

ences". "We would like to improve our activities but we must be very careful not to hurt parallel well protected private interests: we can do very little".

At this stage, the implementation of this model opens the way to the problem of the "qualification" of this dichotomy between the POLRD's technical needs and local technical needs as expression of local social interests.

### 3.2 The problem of a POLRD's inefficiency and ineffectiveness

Literature identifies different forms and types of "institutional" inefficiency (Visco Comandini and Volpe 1986, Granaglia 1988):

- inefficiency in allocation – the POLRD suffers inadequacies during the selection of what kind of goods and services must be produced and how to produce them;
- inefficiency in distribution –inadequacies in distributing goods and services;
- dynamic inefficiency – inadequacies in using resources to improve quality and quantity of goods and services;
- inefficiency in organization – inadequacies in the procedures determining the internal organization.

An organization can reverberate one of more of these inefficiencies into the following spheres:

Expenditure – funding the achievement of public interests, a POLRD's inefficiency can hit one or more of the following phases:

- the beneficiaries' selection
- funds appointment

• forms and time of funds' payment.

Coercion – this dimension involves controls and inspections: safety controls, environmental norms, hygienic requirements, etc. Here a POLRD's inefficiency is likely to be remarkably sensitive because it determines those discrepancies between particular and general interests.

These conditions may result from the perverse combined action of two distinctive problematic dimensions: a) inefficiency of procedural regulations and b) management and staff inefficiency.

Inefficiency of point a) depends on the attitude of norms, regulations and procedures to make a POLRD capable to achieve the expected results. A norm can be considered inefficient when, at cost parity, another one may be designed capable to generate better results, in the opinion of the average of the individuals concerned. A confused framework of norms and regulations, which are directed to chaotically regulate rural development through an extensive network of fences in social and economic issues, induces inefficiency in the public organizations committed to apply it.

This survey highlights the shared opinion within these five POLRDs' management that too many heavy detailed norms (at local, regional, national and EU level), duplications and normative conflicts slow down procedures because often these norms are very complicated and must be also interpreted. These complications make difficult to verify the observance of these norms by private subjects and to assure the observance of these procedures by the POLRD itself.

A critical side of the issue is the widespread opinion of the agents about methods and praxes adopted to select POLRDs' managers and staff. The commonly practiced habit in Italy to make these selections often on the base of political affiliation, contributing also to an excessive dilatation in the number of public offices and positions, contributes to populate public offices with individuals without adequate intellectual and technical expertises and skills (adverse selection). This condition may weaken the POLRD: without competent professional human resources, which on the contrary it should in theory have, the organization is often forced to massively and frequently utilize external consultants' support. A too frequent outsourcing of activities can thus become an indicator of a POLRD inefficiency. This scenario is generally shared by the respondents who are convinced that these things are deeply rooted in "these affaires" and "unavoidable", even when not corresponding to truth.

These considerations open the way for the inefficiencies related to point b). The quality of selection criteria, the internal systems of controls and incentives, influence the overall quality of the POLRD, its observance of legal rules and its global efficiency. In several cases, the presence of a sound regulation and procedural framework cannot grant per se the achievement of the organization's results and objectives because POLRD's management and staff elude these regulations and procedures, the personnel seems not adequately committed, devotes its time to non-productive activities and shows scarce technical skills

and capabilities. The "moral hazard" problem, even relevant for the private sector as well, is likely to be more critical for a public subject which cannot "go bankrupt" for its own "incapability".

Common negative symptoms emerging from the survey are POLRDs' staff and management attitude to be more concerned on "jobs" than "functions", with major attention to practical everyday duties and scarce consideration (or no idea) for the tasks and goals of the POLRD in which they operate, or a too frequent use of "conformity controls" within the organizations superficially adopted to verify if a certain action has been planned and implemented in the strict observance of procedural parameters (without considering whether this action has produced or not the expected result). Other negative signs derive from the characteristics of inner incentive schemes: working more or less, bad or well, the personnel cannot see any gratification, modification in retributions or in job careers' opportunities (motivational erosion). On the contrary, it is assumed that incentives are influenced by different types of "protections" and "blessing" (perverse motivations).

Perceived "diseases" in management are likely to be biased in a too firm "security" of the job, the power the position can generate and (not rarely) links with the political sphere. In the worst cases, managers are considered to see their job as a "private property" which can guarantee different forms of power, devoting much time to elaborate a system of personal power rather than efficiently and effectively cope with their tasks and duties. Consequently, the involved organizations seem to be more structured around managers' and staff needs than POLRD's functions and objectives.

To better qualify POLRDs' inefficiency, procedural (impersonal quality) and personnel quality (human quality) are correlated in the model of figure 2.

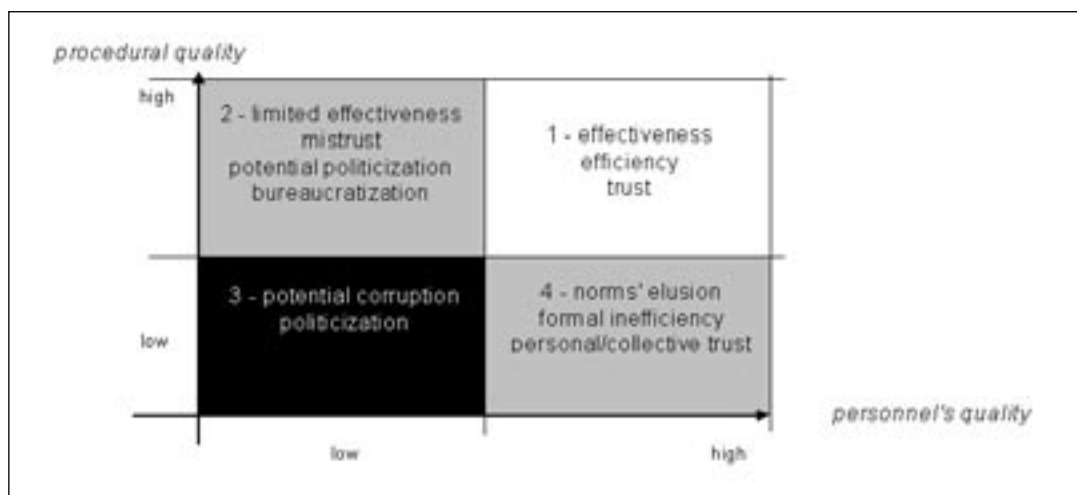


Figure 2 – Procedures' and personnel's efficiency

In the case-study, two POLRDs fall into Sector 1, one into Sector 2, one into Sector 3 and one into Sector 4. Even if no POLRD creates amalgamation phenomena for the territory, POLRDs in Sector 1 may show signs of positive condensations: the others, in a way or another, are charged by the respondents by one or more types of inefficiencies listed above, showing low integration levels and generating among the respondents a sense of mistrust in the organization's efficiency and, in some cases, an idea of partiality of the procedures which regulate the access to service. This sense of mistrust can highly vary creating, in the worst cases (when the organization is seen as "indecipherable", "absolutely not user oriented", "not transparent"), the pre-conditions for a sort of incentive to find privileged contacts with the POLRD to access to service, reduce time or have a "special

treatment": these institutions in fact can decide to make or not to make controls and inspections, rigidly apply or not to apply norms and regulations.

The POLRD in sector 3 poses particular questions because it evokes a commonly perceived sense of "partiality". A POLRD is expected to be neutral holding an adequate degree of autonomy, in particular from politics, when implementing its activities of management, control and intervention (financial support, definition of rules, etc.). This organization is expected to pursue general interests but respondents recognize that it suffers the threat of particular pressures being exposed to the implications of politicization. Being a public entity, this POLRD is seen responsible for economic and non economic costs for the local rural area because it wastes public investment supporting privileged agents selected on the base of political fidelity: non economic costs are focused in the fact that this organization doesn't operate in the public interest with a reduction of its functionality and capability to manage public goods. This is an example of a hub's "preferential attachment" and "adverse condensation" which can contribute to generate favourable conditions for a potential "corruption supply" from the POLRD to which corresponds a growing "corruption demand" from the POLRD's users contributing also to the development of a "low trust context".

#### 4. Concluding comments

The limited dimension of the sample group and the procedures adopted in this survey perhaps do not allow rigorously statistic and scientific conclusions to be extended and generalized. These considerations require further investigations and validations according to more rigorous and orthodox procedures. Having these precautions in mind, this study offered the occasion to reflect about concrete operational expressions of some critical subjects of local rural development, to open a wider debate on the issue and to contribute to redefine strategies above all for a better use of public investments.

A "quantitative" approach to rural development, with a massive presence of poorly coordinated public intervention subjects, duplications and the creation of a cloud of local offices, agencies

and task forces, doesn't grant per se condensation and amalgamation phenomena with the activation of positive impacts for rural areas in economic, environmental and social terms, even when data show a large amount of financed projects, training courses attended, economic activities supported.

Empirical observations confirm that when POLRDs properly work, a more positive environment for the construction and consolidation of trust can be reported: these organizations operate as positive referring points for the definition of business strategies for farmers and other entrepreneurs.

Nonetheless, a more "qualitative" approach can demonstrate that not every POLRD operating on a rural area will provide a positive contribution to economic efficiency and overall local welfare. POLRDs which badly operate or produce poor performances can distort the economy and create forms of material and non-material subsidizing and wasting of public financial resources. A lack of a clearly defined and empirically tested development strategy may cause POLRDs to dissipate scarce public resources on activities which cost more than the benefits these activities should deliver to rural communities. Inefficient POLRDs' interventions may reduce, rather than enhance, the efficiency of local economy and the welfare of local residents also eroding the sense of trust in a rural area and contributing to reduce the sense of respect, shame and honour in individuals and communities.

Intuitively, all these considerations seem to agree with common sense stimulating an agenda for our future research: the efficiency of a POLRD, one of the possible agents of the system and a local public good itself, could be resumed in its capability a) to strengthen these links contributing to enhance the stability of the whole system and b) to increase its number of edges, but we have to cope with our present limits in measuring the strength of interactions and gathering the information useful to describe the network structure and the way such system works.

At the current stage, we can conclude that, in our case-study, local rural development doesn't require new and more sophisticated political and administrative tools but rather substantial improvements in values, procedures and practices governing the operational activities of the existing tools and the management of local public goods.

#### References

- Albert R. and Barabási A. L. (2002) "Statistical mechanics of complex networks" in *Reviews of Modern Physics*, n. 74, 47.
- Artoni, R. (editor), (1993) *Teoria economica e analisi delle istituzioni* (economic theory and institutions' analysis), Il Mulino, (in Italian)
- Bachmann, R. (2001) "Trust, Power and Control in Trans-Organizational Relations" *Organization Studies* 22(2), 337-365.
- Beer A., Haughton G. and Maude A. (2003) *Developing locally: An international comparison of local and regional economic development*. Bristol, UK: The Policy Press.
- Beer A. and Maude A. (2002) *Local and regional economic development agencies in Australia*, Report prepared for the Local Government Association of South Australia, Adelaide: School of Geography, Population and Environmental Management.
- Bingham R. and Bowen W. (1994) "The Performance of State Economic Development Programs: an Impact Evaluation", *Policy Studies Journal*, 22(3), 501-514.
- Blaise G., Currarini S. and Kikidis N. (2002) "Inflation, Welfare, and Public Goods", *Journal of Public Economic Theory* Volume 4, Issue 3, 369-386
- Bollobás B. (1998) *Modern Graph Theory*, Springer, New York.
- Bouchaud J.-P. and Potters M. (2000) *Theory of Financial Risks*, Cambridge University Press, Cambridge.
- Burnside C. and Dollar D. (2000) "Aid, Policies and Growth" *American Economic Review* 90: 847-868.
- Cassese S. (1994) *L'amministrazione Pubblica in Italia* (public administration in Italy), Il Mulino, (in Italian).
- Champsaur P.I, Roberts D. and Rosenthal R. (1975) "On Cores of Economies with Public Goods" *International Economic Review*, 16, 751-764.
- Clower T., Beer A., Maude A. and Haughton G. (2004) "Multinational Lessons from Local and Regional Economic Development Agencies", paper presented to the Annual Meeting of the European Regional Science Association, Porto, Portugal, August, 2004.
- Corkill D. and Lander S., (1998) "Diversity in agent organizations", *Object Magazine* 8 (4), 41-47.
- Daft R. (2001). *Organization Theory and Design*. Ohio: South Western.

- Danson M., Halkier H. and Cameron G. (2000) *Governance, institutional change and regional development*, London: Ashgate.
- Dasgupta P. (1988) "Trust as a Commodity" in *Trust: making and breaking cooperative relations*, ed. D. Gambetta, 49-73. New York, Oxford: Basil Blackwell.
- Donolo C. (1997) *L'intelligenza delle istituzioni* (The intelligence of institutions), Il Mulino, (in italian).
- Feiock R., Dubnick M. and Mitchell J., (1993) "State Economic Development Policies and National Economic Growth" in *Public Administration Quarterly*, 16(1), 55-67.
- Galbraith J. (1973) *Designing Complex Organizations*, Addison-Wesley, Reading, MA.
- Ganesan S. and Hess R. (1997) "Dimensions and Levels of Trust: Implications for Commitment to a Relationship" *Marketing Letters* 8(4): 439-448.
- Glaeser E., Laibson D., Scheinkman J. A. and Soutter C. (2000) "Measuring Trust" *Quarterly Journal of Economics* 115: 811-846.
- Goss E. and Phillips J. (1977) "The Effect of State Economic Development Spending on State Income and Employment Growth", *Economic Development Quarterly*, 11(1), 88-97.
- Grady D. (1987) "State Economic Development Incentives, Why do States Compete?" *State and Local Government Review*, n. 19, 86-94.
- Granaglia E. (1988) *Efficienza ed equità nelle politiche pubbliche* (efficiency and equity in public policies), FrancoAngeli, (in italian).
- Halkier H., Danson M. and Damborg C. (1998) *Regional development agencies in Europe*, London: Jessica Kingsley Publishers/Regional Studies Association.
- Hall R. (1968) "Professionalization and Bureaucratization", *American Sociological Review*: n.33, 92-104
- Hauser J., Urban G. and Weinberg B. (1993) "How consumers allocate their time when searching for information", *Journal of Marketing Research* 30, 452-466.
- Herr P., Kardes F. and Kim J. (1991) "Effects of word-of-mouth and product-attribute information on persuasion: an accessibility-diagnostics perspective", *Journal of Consumer Research* 17, 454-462.
- Hughes J. (1998) "The role of development agencies in regional policy: an academic and practitioner approach", *Urban Studies*, vol 35, no 4, 615-626.
- Kahan P. (1996) "State Economic Development Initiatives", *Tax Executive*, 48(6), 445-448.
- Lanzalaco L. (1995) *Istituzioni, organizzazioni, potere* (institutions, organizations, power), Nuova Italia Scientifica, (in italian).
- Mantegna R. and Stanley E. (2000) *Econophysics*, Cambridge University Press, Cambridge.
- Marquis M. and Filiatrault P., (2002) "Understanding complaining responses through consumers' self-consciousness disposition", *Psychology & Marketing* 19 (3), 267-292.
- McNulty T. and Ferlie E. (2004) "Process Transformation: Limitations to Radical Organizational Change within Public Service Organizations", *Organization Studies*, Oct 2004; n. 25, 1389-1412.
- Milleron J. C. (1972) "Theory of Value with Public Goods: A Survey Article" *Journal of Economic Theory*, 5, 419-477.
- Newman M. (2003) "The structure and function of complex networks", *SIAM Review*, n. 45, 167.
- Nooteboom B. (2000) "Trust as a Governance Device" in *Cultural factors in economic growth*, eds. M.C. Casson & A. Godley, 44-68. Heidelberg: Springer.
- North D. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge, Cambridge University Press.
- Reese L. (1997) *Local economic development policy: The United States and Canada*, New York, NY: Garland Publishing.
- Rege M. (2004) "Social Norms and Private Provision of Public Goods", *Journal of Public Economic Theory*, Volume 6, Issue 1, 65-77
- Samuelson P. (1954) "The Pure Theory of Public Expenditure" *Review of Economics and Statistics*, 36, 387-389.
- Seligman A. (1997) *The Problem of Trust*. Princeton.
- Sigmund K., Fehr E. and Nowak M. (2002) "The Economics of Fair Play" *Scientific American* January: 83-87.
- Smallbone D. and Lyon F. (2002) "A Note on Trust, Networks, Social Capital and Entrepreneurial Behaviour." In *Entrepreneurial Strategies and Trust: Structure and Evolution of Entrepreneurial Behavioural Patterns in East and West European Environments – Concepts and Considerations*, eds. H.-H. Höhmann & F. Welter, 19- 24. Forschungsstelle Osteuropa Bremen, Arbeitspapiere und Materialien, 37, Bremen.
- Solomon S., Weisbuch G., de Arcangelis L., Jan N. and Stauffer D. (2000) "Social percolation models", in *Physica A* 277, 230-247.
- Thomson W. (1999) "Economies with Public Goods: An Elementary Geometric Exposition" *Journal of Public Economic Theory*, 1, 139-176.
- Townley B., Cooper D. and Oakes L. (2003) "Performance Measures and the Rationalization of Organizations" *Organization Studies*, Sep 2003, n. 24, 1045-1071.
- Vazquez A. (2003) "Growing networks with local rules: preferential attachment, clustering hierarchy and degree correlations", in *Physics Review*, n. 67.
- Visco Comandini V. and Volpe M., (1986) *Efficienza e produttività dei servizi pubblici* (efficiency and productivity of public services), Il Mulino, (in italian).

---

## Carmelo Cannarella

Carmelo Cannarella is technologist at the Institute of Chemical Methodologies of the National Research Council of Italy. He's the coordinator of the Research Team on Development and Innovative Processes at the above Institute. He's author of articles and monographs on rural development, innovation diffusion in rural areas, ethics and development.

---

## Valeria Piccioni

Valeria Piccioni is technologist at the Institute of Chemical Methodologies of the National Research Council of Italy. She's member of the Research Team on Development and Innovative Processes at the above Institute and author of articles on rural development, knowledge flows research centres/rural SMEs, public institutions' role on rural development.

### Details of the author to whom all correspondence should be sent:

Dr. Carmelo Cannarella, Ph. +39 761 370393 ext. 30, Fax +39 761 370951, Email : c.cannarella@imc.cnr.it, Private Mail Address: Carmelo Cannarella, via Gen. C. A. Dalla Chiesa n. 9, 01030 Vitorchiano, ITALY