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RESILIENT SMES, INSTITUTIONS AND JUSTICE. EVIDENCE IN ITALY

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Abstract: *The recent financial crisis (2008) seriously affected the credibility of European and Italian institutions. It was also characterized by a general pessimism and low expectations of economic operators, especially firms. In literature, relationships between the quality of institutions and economic activities have been widely investigated. They show how the judicial system, the regulatory authorities and governance are important aspects for the quality of institutions.*

The main conclusion of existing literature, or the necessity of a reform of judicial system, is the basis of this work. Thus, here there is an attempt to investigate the performances of the judicial system, considering the low and poor level of its effects on firms' performances. In particular, in this work, there is a simple empirical analysis (data paucity is the big limit) in order to investigate the consequences of an efficient, long-time justice on resilient firms' confidence and perspective. Those resilient firms, able to overcome the financial crisis, show their ability in surviving, even if justice doesn't help them.

Keywords: *Resilient Firms; Institutions; Judicial System.*

JEL Classification: *K00; K10; P47*

1. INTRODUCTION

In the literature, relationships between the quality of institutions and economic activities have been widely investigated. They show how the judicial system, the regulatory authorities and governance are important aspects for the quality of institutions. By proposing a further aspect of the judiciary system, the literature's conclusions represent a principal input into the current question about

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the effects of poor judicial performance as well as the suitable development of a necessary judicial reform.

The perception that families and firms hold about future economic conditions had a strong impact on private consumption and investment. Also during the crisis, many Italian firms continued production, thus supporting Italian export activity. In fact, they showed an appreciable resilience to the crisis, which is interesting to investigate, although the crisis had profoundly affected their trust in institutions and justice.

In this paper, we contribute to the current literature on justice's effects by presenting an empirical search about the consequences of an inefficient, long-time justice on a confidence and perspective of firms. In particular, the analysis refers to a sample of resilient firms, who demonstrated the capacity to overcome recent financial crisis.

Previous studies on these consequences in Italy were mainly concentrated on the choice of firm's dimensions and on credit markets. To provide a further perspective, this paper verifies how these long times affect the expectations and confidence by firms in justice, with a strong consequence on the future of the productive system.

At the present stage, at our knowledge, this is one of the first works that studies the link between the duration of judicial deliberation and the confidence of firms, both at institutions level, and in a wide perspective. The results show that inefficiency of justice has a negative impact on firms confidence and, consequently, on their decisions about the future.

The paper is organized as follows: paragraph 1 (The International crisis and the productive system) describes the effects that the recent economic crisis produces on different Economies; paragraph 2 (SME's and resilience in the economic literature) contemplates the concept of resilience in economic literature; paragraph 3 (Justice performances and firms) represents the relation between justice performance and firms. A case study is in paragraph 4 (The case study) and paragraph 5 concludes.

2. The International Crisis and the Productive System

The European crisis has revealed many insufficiencies in the institutional structure of the euro area as well as the inadequacy of the policy reaction. Many have argued that the origin of these problems lies in the fact that the monetary union was not complemented by sufficient financial and economic cooperation among the euro area countries. The crisis has generated an awareness of the need for European institutional harmony, even if the necessary conditions to achieve this imply a progressive and difficult convergence in behavior and expectations and the spread of optimism. This would appear to be difficult since the crisis has frustrated the growth performance of the global economy. Subsequent restrictive policies which have rarely aimed at long-term solutions have had a negative impact on the expectations of households and firms. There was a sharp decrease in confidence especially when the global recession caused a liquidity shock after the collapse of Lehman Brothers. This decline in confidence also occurred in Italy, where the crisis caused a rapid fall in consumption and investment, as in the rest of the Europe (Banca d'Italia, 2007). In the debate arising from the effects of the crisis in Italy, it was argued that the country would have suffered less damage than the economies in which the crisis originated, due to the greater solidity of its banking system, low levels of household debt and the scarcity of overvaluation of real estate activities. Despite this, the recession following the crisis has created a climate of pervasive uncertainty among firms and families. This has led to greater prudence in their investment and consumption decisions, not captured by the "key variables". In Italy most of the effects of the crisis are linked to the evolution of the international context. In fact, the Italian economy officially went into recession in the second half of 2011, at the beginning of the second phase of the crisis characterized by the intensification in risk aversion, decreasing asset prices and a considerable decline in growth expectations for many countries. These negative expectations may have amplified the subtraction of taxable income, the recourse to the underground labor market, and finally, may have expanded the illegal economy. The deterioration of financing conditions of firms has further expanded the consequences, producing a crisis of confidence that has characterized the recession. The '"distrust effect", common among economic agents (families, firms) has contributed to the cyclical weakening. Initially this mistrust was considered as not being consistent with the variation in the fundamental determinants, however it then created more anxiety about future aggravation of economic conditions which was not completely confirmed by their actual performance. Indeed, the increased uncertainty and the associated decrease in confidence experienced during the crisis, have caused a considerable slowdown in economic activity. The related and continuous deterioration in demand prospects has in turn deterred the accumulation of capital. Overall, the effect of the crisis of confidence on the GDP would be close to -1.5 percentage points. To date, the Italian economy is among those most affected by the global recession. This has caused a decline in our exports, significantly higher than that of international trade. Moreover, despite the relative stability of the national banking system, the increase in the cost of credit and the scarcity of funding floods towards firms have seriously contributed to the deterioration in the economic performance of the country. The perception that families and firms hold about future economic conditions has had a strong impact on private consumption and investment. Their expectations evolved in a similar way during the crisis. Confidence and uncertainty indicators for both firms and households indicate that: consumer confidence collapsed in 2008-2009, as in almost all other countries in Europe; the confidence of firms showed a somewhat parallel trend, while changes in uncertainty were less clear. Distrust presented alternating patterns: it reached dramatic levels immediately after the outbreak of the crisis, then it grown little but fell again after the start of the recession of 2011/12. Confidence improved from that point on, but was persistently low. Despite this, the uncertainty of firms remains, even if it seems not to have reached dramatic levels. Nevertheless, many Italian firms have continued production and have supported the Italian export activity during the crisis. In fact, they have shown an appreciable resilience to the crisis, which is interesting to investigate.

3. SME'S AND RESILIENCE IN THE ECONOMIC LITERATURE

Compared to larger firms, it has always been more difficult for SMEs to access credit, due to their size and to the asymmetric information which characterizes credit markets (Stiglitz and Weiss,1992; Storey, 1994). In Europe, the banking system (BCE, Fed and Deutsche Bank Research data) still provides 80% of firms loans while, in the USA, small firms can access external financial resources more easily. In this respect, Italy is a particular case: the Italian manufacturing system has historically been characterized by small size firms. On average they are 40 per cent smaller than in other European countries. However, Italian industrial firms are sufficiently globalised to secure an advantageous position in EU manufacturing exports. The small size of firms is often considered a weak point in the Italian productive system and explains the problems of low productivity and growth in the Italian economy (Brandolini and Bugamelli, 2009). However, this is often a conscious choice made by these firms and seems to be linked not only to economic factors but also to cultural and institutional ones. Some studies have considered (Giacomelli and Menon 2013; Gurrieri and Lorizio, 2014) the institutional factors linked to this choice which can be identified as the weak contract enforcement in the Italian institutional environment, and the poor performance of the Italian justice system. According to the World Bank's "Doing Business" report, Italy ranks 160th, out of 185 countries in the enforcing contracts indicator. This low judicial efficiency is mostly due to the excessive length of judicial proceedings. The World Bank data show that, in Italy, it takes an average 1,210 days to resolve a commercial dispute through the courts, compared to 300 days in the USA and about 400 days in the UK and Germany. This is a negative factor for Italy on the whole but it is particularly dangerous for firms, especially small firms, as it affects their expectations and their level of trust. In fact many studies (Cingano and Pinotti 2011, Jappelli, et al, 2005; Fabbri, 2010; Magri, 2010) have shown that the poor judicial efficiency in Italy negatively affects the functioning of credit markets and reduces access to bank loans for small firms. The financial crisis was a critical hurdle for the expectations, trust and decisions of firms. However, it has highlighted the unexpected ability of some Italian firms to react and show remarkable resilience. This performance of SMEs is often determined by different features of a firm, such as relational factors (social and production networks), entrepreneurship and the firms milieu culture (Nichter and Goldmark 2009). These circumstances could explain why, despite their small size, many Italian firms showed significant resilience and performed well even during the most difficult phase of the crisis. First, a fraction of Italian industrial firms works exclusively as intermediate firms, and this is an important factor in explaining their resilience to the crisis. Furthermore, often the small size was more than counterbalanced by the benefits associated with the district organization of the Italian SMEs. Italy can boast many excellent manufacturing firms which, though often very small, are part of a strategic supply chain which favors renewed production and enables them to deal with foreign markets. The Italian districts produced about two-thirds of the whole Italian manufacturing surplus. These districts are made up of high technology value firms which provide high-end products to advanced countries, especially Germany and France. The financial profile of these firms, even during the crisis, is characterized by increasing revenues and decreasing debt. The best firms, the top 25%, recorded a significant growth. Common features of these firms are their ability to develop new business in all market conditions, together with professional management - which is not exclusively assigned to the family - as well as high levels of interpersonal trust. These aspects have favored a consistent resilience for many Italian and European small firms. In the last few years, the theme of resilience has been widely discussed in the literature. In economic theory, there is still no consensus on the definition of resilience, but three different definitions may be considered. The first, deriving from the field of engineering (Hotelling, 1973; Pimm 1984; Walker et al., 2006), defines resilience as the ability of a system to return to its initial state of equilibrium after a shock. The resilience identifies the resistance to shocks of the system and the speed at which this equilibrium is regained after a shock. Therefore, the system shows a stable balance and has the ability to self-equilibrate. This definition can be applied to the so-called ‘plucking model’ (Friedman, 1993), characterized by temporary shocks which do not affect long-term growth. This version of resilience focusses on the concept of equilibrium and not on the consequences that the shock can produce to the economic system, which can return to the pre-shock equilibrium thanks to social and economic reforms.

The second definition, deriving from ecology, considers resilience as the ability of a system to sustain a certain level of disorder without changing its status and structure. Resilience is measured by the size of the shock that the system is able to tolerate and absorb before changing its equilibrium. This definition of resilience focusses on the system (made up of individuals, organizations and territory) but some studies related to this approach (Hotelling 1973, 1996, 2001; McGlade et al., 2006; Walker et al., 2006) consider the hypothesis of multiple equilibrium, and the possibility that the system can evolve in different states to those preceding the disorder. The focus is not on the factor of disorder, but on the relationship between this factor and the system (in its complexity), a relationship which can be explained by analysing the state variables and the control variables. The socio-ecological approach to resilience, the evolution of the ecological version, analyzes the relationship between system and environment, focusing on the system's adaptability, triggered by the uncertainty caused by the factor of disorder.

In this way, the concept of resilience expands to include not only the ability to tolerate a disturbance, but also the concept of self-renewal capability.

The third definition belongs to the evolutionary theory and derives from the theory of complex and adaptive systems. It claims that, after a shock, the system has adaptive capabilities that allow it to spontaneously re-order its structure (Martin and Sunley, 2007) in the economic, institutional and social sense, and to find new growth paths. Adaptive resilience is therefore a dynamic process represented by the system's ability to bounce forward, rather than to return to a previous situation (Martin and Sunley, 2014). However, the response of a territory to a shock is determined not only by its economic resilience, but also by the reaction of individuals and the community, therefore social resilience is defined in economic literature as the ability of a community to resist external shocks due to the social infrastructures. These are the capacities of individuals, organizations and communities to adapt, tolerate, absorb, cope and adjust in response to change and to various threats (Adger, 2000). This definition derives from the literature on the dynamics of complex, adaptive, socio-ecological systems -SES - (Carpenter et al., 2005; Walker and Mayers, 2004; Hotelling and Gunderson, 2002; Hotelling 2001, 1973, 1996; Gunderson et al., 1995). It focuses on the dynamics of the resilience characteristics, which consists in a process (Pendall et al, 2010), capable of activating the capacities of resisting, responding, recovering and creating new alternatives after a shock (Cutter et al., 2008). Some particular features of this process are adaptability and transformability, through which the system is able to absorb the disturbances and reorganize itself while retaining the same functions, the same identity and the same structure (Walker and Mayers 2004). Economic resilience is measured in terms of GDP. According to Hill et al. (2008), resilient economies are those which, after an economic shock, return to the previous rate of growth, possibly through a change in their growth path. Therefore, shock resistant economies are those on which a shock has no economic impact, while non-resilient economies are those which are not able to react to a shock and continue to operate within the changing situation provoked by the shock. Although the literature has not yet suggested a way to define and measure resilience, it is nevertheless possible to identify features which are common to the resilient Italian firms. Most of them appear to be characterized by the acquisition, spread and development of technology, by the strengthening of ties with the territory in which they operate while simultaneously strengthening productive performance and by the creation of a close relationship with the institutional context. To this end, the role of institutions in the process of economic growth is historically recognized (Baumol, 1990); studies on the socio-economic context and the influence it exerts on entrepreneurship have already stressed the importance of the relationship between the entrepreneur and the institutional environment (Putnam, 1993). More recently it has been demonstrated that a positive institutional environment can positively affect levels of resilience in firms.

4. THE QUALITY OF INSTITUTIONS AND THE ROLE OF SOCIAL CAPITAL

Institutions are often defined as those constraints that shape political, economic and social interactions (North 1990). Their aim is to moderate the uncertainty deriving from asymmetric information. Rulers, parliaments and bureaucracies usually impose formal institutions. They represent the governance of a country, which can be described as the outcome (good or bad) of institutions. Various studies have shown that institutional quality is decisive for economic and social development. Yet Adam Smith (1776) observed that private contracting (institutional quality) is a crucial condition for the reciprocally favourable exchanges that stimulate specialization, innovation and growth, the principal requisites to obtain profits from trade. Several classical scholars considered the legal and market institutions as the pillars of the market economy. The principal ones are: the rule of law (Hayek, 1973), the protection of property rights (Coase 1960), and pro-competition policies (Friedman 1962). Each of these institutions participates in the concept of economic freedom (Gwartney and Lawson, 2003). In the 1990s, a large part of the literature illustrated that the factors of development were institutions, political systems, laws, social capital, culture and other factors (Levine 1999, La Porta et al. 1998, Allen and Gale 2001; Chinn and Ito 2006). Although it is widely recognized (Olson, 1982; North, 1991; Rodrik, 2003; Acemoglu, 2006) that institutions make a difference to economic growth, how they can favour economic growth is still ambiguous. In these studies, fundamental institutions for growth are property rights, the quality and independence of the judiciary, regulatory organizations, and bureaucratic aptitude (Rodrik, 2003). The latest studies have shown that, among other factors, institutional quality is also connected with: * higher economic growth income (Lee and Kim, 2009; Acemoglu and Robinson, 2012; Barro, 1999; Campos and Nugent, 1998); * higher public and private investment (Alfaro et al., 2005; Rodrik, 2003; Knak and Keefer, 2005); * enhancements in human capital (Arimah, 2004); * a more efficient justice (Beenstock, and Haitovsky, 2004; Bianco et al., 2007); * improved administration of ethnic conflicts (Easterly, 2001); * reduction of income inequality (Chong and Gradstein, 2004); and * better financial development (Beck et al., 2001). Rodrik, et al. (2004) explain how institutional quality can influence income levels. They identify three channels: the reduction of information asymmetries; the decline of risk, through the definition and enforcement of property rights; the limitation of the power of politicians and interest groups, which are rendered more answerable to citizens by the institutions (World Trade Organization 2004). While it is recognized that institutions are central for growth, several studies examined the role of different kinds of institutions. La Porta et al (1997, 1998) argued that the quality of a country’s legal institutions could modify the level of the rent-seeking by corporate insiders and, in that way, stimulate financial development. Knack and Keefer (1997) demonstrate that institutions that safeguard property rights and contract enforcement sustain the development of social capital, which is associated to reliable economic performance. Indeed, more highly developed countries present high quality institutions, a better protection of property rights and a more efficient legal and judicial framework. Therefore, the level of growth depends on the institutional, social, legal and financial framework. Fundamental public services, such as health, education, civil justice and local public services, support the stock of human capital, increase the labor supply and produce a positive environment for the creation and development of firms. In particular, institutional quality can strongly influence investment decisions by firms. Given the central role of institutions in the growth of economies, a solid culture of the rule of law, government reliability and efficient legal and judicial frameworks is crucial for the formation of institutional capital. The rule of law index from Kaufmann et al (2009) is an important indicator for institutional capital; it measures the confidence of agents in the rules of society, and their respect of them. In particular, it measures the quality of contract enforcement, the credibility of the courts, property rights and the efficiency of the police force. In a World Bank (2006) analysis this indicator is mainly used to measure the components of a country's social capital, in particular trust, which is one of the principal components of the so-called social capital. It is considered as important as the institutions for the growth of a country. Many studies underline the relevance of social capital, described as the collective advantage derived from the reciprocal cooperation among individuals, and from their reciprocal trust. In the publication "Making Democracy Work" (1993) Putnam already attributed the delay in southern Italy to its low endowment of social capital; this inadequacy undermined confidence in local institutions, limited their efficiency and consequently reduced the growth potential of the southern territorial systems. However, this study also highlights the difficulty in measuring social capital due to its intrinsic multidimensionality. It is, in fact, a mix of "norms, trust and association" that reflects the values, perceptions and individual and collective conduct, which is difficult to measure empirically. The first scholars of the subject have therefore focused on the objective characteristics of social capital, consisting in civicness (measured by voter turnout, fiscal and economic legality, cultural involvement) and trust (in particular trust in others and in institutions, measured through participation in voluntary and associative activities). When scholars of social capital, such as Fukuyama (2000), Bagnasco (2004) and Trigilia (2001) consider the role of trust, the measurements become inevitably subjective: trust is in fact derived from polls and surveys regarding the perceptions of subjects, the sharing of values and ethical priority. The literature on the subject can be divided into four areas of research. Putnam explains the birth of the institutions as a result of the rebalancing of the different socio-economic and political performances between northern and southern areas, with particular attention paid to the economic consequences of the relationships between the various individuals. Social capital, therefore, has a territorial and regional explanation; it represents a social resource at a local level. A second school of thought, represented mainly by Coleman (1990), studies social capital from the micro economic perspective, focusing on the behavior of economic agents, where social capital is set up as a "relational situational good " (Piselli, 2001). The third line of investigation (Glaeser et al, 2000) focuses on managerial theories and their efficiency, and studies on the role of trust, considered the only intangible asset that can affect economic performance. Finally, the institutional approach considers social capital as an externality. In particular, its frequency determines a mechanism by which the frequent use of social capital determines its progressive strengthening (Nooteboom, 1999, 2002).

In this way, the research distinguishes four types of social capital: “values” capital, represented by the significance which people attribute to personal values (family, religion); "relational" capital, represented by the importance of interaction and participation in social networks; "institutional" capital, expressing trust in collective institutions; and "cooperative" capital, exemplified by participation in voluntary associations and organizations. Social capital is very unstable, it can be constructed - or demolished - by the private actors in the market, consumers and firms (Baron, 2001; Besley and Chatal ,2007). For firms, the most important factor of social capital is trust. Indeed, trust plays a decisive role in their decision-making. In general, the role of trust is more important than the role of rationality for economic efficiency and growth, contrary to what the classical theory of the market affirms. Even in the presence of market failure, trust may offset these failures and lead to results that would not be achievable otherwise. Scholars stress how trust is associated to low corruption and efficient bureaucracies (La Porta et al., 1997), financial development (Guiso et al., 2004) and higher economic development (Knack and Keefer, 1997; Zak and Knack, 2001; Dearmon and Grier, 2011). One probable explanation for the present stagnation is that it is produced by a broad lack of trust on the part of economic agents, and principally on the part of firms. A good relationship of trust between the parties and with the institutions is essential to the resilience and the competitiveness of firms. In addition to various other economic activities, justice is the public service that is more dependent on trust.

5. JUSTICE PERFORMANCES AND FIRMS

A prosperous economy is based on an efficient system to enforce contracts and property rights (North 1981). The importance of having an efficient institutional structure for economic performance has been highlighted by North (North and Thomas, 1973), while Acemoglu and Robinson (2012) stress the importance of the justice and law institutions for economic growth. In fact, a solid and inclusive regulatory framework and a quick and efficient enforcement system improve competition, facilitate the entry and exit of firms from the market, support investment and have a positive effect on productivity (Scarpetta et al., 2002; Klapper, Laeven e Rajan, 2006). The World Bank (2003) describes the rule of law as the situation when “the government itself is bound by the law” and access to justice is regularly specified. The principle is simple: a better justice system and, in general, better political institutions have the ability to inhibit system failures and reduce the probability of a crisis of trust. To this end, the judiciary must have the necessary resources to respond to a large number of demands for justice and to resolve disputes efficiently. If, for various reasons, the judiciary is not efficient in defending civil rights, then citizens and firms will not trust in the rule of law.

Economic literature highlights three suitable features of a judicial system. The first describes efficiency as the competence, rich of financial resources, able to decide disputes in an acceptable time. The second highlights the quality of judgments, ie a precise and accredited decision, and the third introduces the independence of judgment. Several studies (Diankov et al., 2008; Bae and Goyal, 2009; Qian and Strahan, 2007) empirically support the idea that systems for enforcement debt’s contracts, are efficacious if the credit markets is developed. This result also influenced researches on single country in examining territorial differences within a Country. In a study on Italy, Jappelli et al, (2005), utilizing data on provincial basis, show that in more efficient judicial districts the restriction of credit for firms is lower, and bank credit is higher. The same conclusion is in the case of Spain (Fabbri, 2010) and Russia (Shvets, 2012). However, the restriction of credit, in an inefficient judicial system, may be also extended to families (Fabbri and Padula, 2004).

Moreover, a study on 15 European Countries (Kumar, b. et al, 2001), examining firms at level data, highlights that an efficient judicial system is the great firms dimension. Furthermore, a more efficient justice system can improve both the defense of intangible assets, and firms’ reputation and customer relationships. Other studies on Mexico (Laeven, and Woodruff, 2007), Spain (García-Posada and Mora-Sanguinetti, 2013), and Itlay (Giacomelli e Menon, 2013) empirically investigate the relation between justice’s good performance and firm’s dimension. Giacomelli e Menon (2013) observe that in Italy the reduction of the length of judicial proceedings positively affects the average dimension of Italian firms.

Also Nunn (2007) shows that a reduced length of proceedings promotes specialization in Regions characterized by specific relation investments (i.e. firm’s investments adopted to enjoy the particular requirements of its customers). The danger of post-contractual opportunism (hold-up risk), in a situation of modest performance of the judicial system, can negatively shape investment-decisions of firms and lead to an under-investment.

During a crisis, low confidence together with growing uncertainty can lead to an extremely serious situation. The judicial system can only reduce uncertainty if families and firms can plausibly expect the law to be applied. Numerous empirical studies have shown that inefficient judicial systems produce negative effects on the economy (Kumar et al. 2001; Laeven e Woodruff, 2007). The crucial role of the judicial systems for economic development has led many scholars (Posner, 1993 and 1998; Feld and Voigt 2003; Stephenson 2009; Chemin 2012) to analyze the working of courts and judicial decision-making. Scholars in law and economics in particular have empirically investigated a broad variety of court and judicial decisions. These studies are related to court performance (Deyneli 2012, Ippoliti et al., 2014), the productivity of judges (Choi et al. 2009, Ramseyer 2012, Lorizio-Stramaglia 2016), the length of trials (Spurr 1997, Djankov et al. 2003, Di Vita 2012, Boyd and Hoffman 2013, Bielen et al. 2014, Gurrieri-Lorizio 2015) and the organization of the court (Beenstock and Haitovsky 2004, Rosales-López 2008; Dimitrova- Grajzl et al. 2012a, 2014; El Bialy 2016, Galanter 2004). This literature has triggered a relevant and ongoing debate about suitable judicial reform (Botero et al. 2003). In Italy, the most obvious problems in the justice system are the court delays (Sobbrio et al, 2009; Bianco et al., 2007). Therefore, the time that judges take to decide on cases has become the theme of policy discussions and polemics (Di Vita, 2012; Cohen et al, 2013). In this respect, many studies (Giacomelli and Menon, 2013) have examined the relationship between growth and the difficulties of the Italian justice system. A series of studies based on provincial data show that low performance in the justice system is associated with a decrease in the birth rate and in the size of firms (Bianco e Giacomelli, 2004) and in a reduced availability of credit (Jappelli et al. 2005). The excessive length of proceedings is one of the main problems characterizing the Italian judicial system. Studies on this topic indicate that the time required to conclude disputes in Italy is much higher - by dimension and degree - than the equivalent in more economically developed countries. This has serious economic repercussions as the excessive length of the processes increases uncertainty, discourages direct foreign investment - making Italy less attractive than its competitors - and paralyses the decisions of firms. According to the Bank of Italy, justice is a "powerful friction factor in the functioning of the economy," which could result in an annual loss of GDP of around one percentage point. Frequent judicial reforms have been made but the system is still inadequate. The principal problems are the organisations of resources, which are the same amount as in other European countries, and the disproportionate litigation (Banca d'Italia, 2007). Many of measures have been sought in order to improve the functioning of the courts and to accelerate the judicial process. These reforms deal with the institution of obligatory conciliation procedures, the creation of courts specialized in the legal disputes of companies, the reorganization of judicial districts and procedures to reduce the backlog of work in courts. The effects of these reforms on the economic system will be seen in the medium to long term. The OECD simulations in 2013 and other analogous studies (Lusinyan and Muir, 2013) estimate that the complete application of the measures formulated would improve GDP growth by about 5 percentage points in a ten-year period. Nowadays, additional measures are necessary and should be aimed at reducing the administrative burdens on firms and simplifying procedures for starting firms activities. In fact, companies perform well if they have confidence in the rules of society, in the police, in the courts and in the quality of protection of contracts and property rights. In particular, the perception of the defence of contractual and property rights of companies is crucial for their confidence (Acemouglu et al. 2006). Their perception of the efficiency and speed with which their defence is implemented is especially relevant. Virtuous jurisdictional institutions should, in theory, moderate transaction costs among firms and decrease the connected risks, improving the agents' confidence. The levels of confidence of a country are carefully observed by the media and are also strictly analyzed by economic analysts and policy makers, particularly when the economy is frail. It is thought that a decline in an agent's confidence may induce more cautious behavior, which could negatively affect growth. A global fall in firms and consumer confidence was a principal characteristic of the recent recession. Confidence affects many factors such as income, employment and wages, which are very significant for medium-term economic development. After the 2008 financial crisis, there was a widespread fall in firms and consumers confidence in developed economies. In the euro area, firms also suffered a consequent intensification of uncertainty, which lead to deferring investment projects. Families also showed greater caution in their choices, expressed by an impressive increase in their savings. As regards the Italian economy, the so-called “debt crisis” increased uncertainty among families and firms. This produced an excessive caution in spending which was not justified by the trend in the “fundamental variables”. In fact, the ISTAT survey on the confidence of families and firms indicates a decline in the second half of 2011, which persisted into the following year, with modest improvements in the summer of 2013. In particular, it is said that consumers have experienced the so-called “phase after the trust", the "post-trusted phase ", even though an analysis by Eurisko (2013) indicates that recently optimism is not increasing but pessimism is decreasing. Above all, the recent crisis has shown that confidence levels may offer significant information about the perceptions of the private sector and their level of uncertainty and that it may have considerable repercussions for economic growth. Indeed, “…. firms may reduce investment and households consumption. Banks may in turn respond to this situation with stricter credit standards, which reinforces disinflationary pressure and hence worsens debt burdens. This is fertile ground for a pernicious negative spiral, which then also affects expectations” (Mario Draghi, President of the ECB, Monetary policy in a prolonged period of low inflation”, speech by Mario Draghi, President of the ECB, at the ECB Forum on Central Banking, Sintra, 26 May 2014). Expectations also have a significant role in shaping economic dynamics, as considered by many macroeconomic studies (Lucas, 1972; Lorenzoni, 2009; Jaimovich and Rebelo , 2009; Eusepi and Preston, 2011; Barsky and Sims, 2012; Schmitt-Grohe and Uribe, 2012; Beaudry and Portier, 2004, 2006) illustrating how economic cycle oscillations are largely due to modifications in agents' expectations about future of economic scenarios. Changes in agents' expectations about future technological growth seems to be an important source of business cycle fluctuations. The positive expectations of firms trigger a phase of optimism in the country which can support growth, while unexpected and news shocks can modify agents’ expectations on the economic future. The firms’ expectations on their future conditions affect the allocation of capital stock and labor supply. The literature has tried to empirically analyze how firms’ expectations are formed: accounting literature (McDonald, 1973, Firth and Smith, 1992) observes that managers tend to modify the forecasts on their gains and dividend upwards, probably to strategically attract more investors. Malmendier and Tate (2005), investigate the relationship between excess confidence of firms - analyzing the risks associated with their investment strategies - and the investments. On the other hand, Anderson et al. (1954) studied the qualitative expectation mistakes; Nerlove (1983) studied the expectations of German and French firms on some variables (prices, demand...), Tompkinson and Common (1983) analyzed expectations of firm variables in the U.K. manufacturing sector and examined whether firms are rational about the trend of the market prices of their own commodities. In Italy, the expectations of firms are "historically" associated with the awareness of the slowness of justice. This factor, together with the effects of the crisis, structurally and intensely modify the expectations of firms, which then worsen and lead to a downward revision of production plans which are considered "normal" and to a persistent reduction in production compared to potential levels. Indeed, during the crisis the decline in effective GDP in Italy prevailed over the decline in potential output. It corresponded to -3.8%, -5.9%, -6.7% in 2012, 2013, 2014, respectively. These excessive levels could be caused also by a dramatic collapse in confidence, which deeply compressed consumption and investment. Firms, alarmed by the rising unsold production, would not be confident about the future and the positive consequences of the recovery policies. Therefore, the expectations, which easily change from optimism to pessimism - but hardly vice versa - play a crucial role. A recession severely depresses the expectations of firms and reduces their confidence in the recovery prospects. The deterioration of expectations also occurs in families and the consequential distrust about job prospects reduces consumption spending in order to increase precautionary saving. In circumstances characterized by the persistence of negative expectations, the stimulus policies will be ineffective.

6. THE CASE STUDY

In a previous study (Gurrieri-Lorizio, 2016) we highlighted how the performance of justice in particular implicitly influences the relationship of mutual trust "between" firms, especially in Italy, and dramatically reduces confidence in the judicial system. The recent financial crisis decreased expectations and trust and negatively affected relationships between Italian firms and institutions, especially with regard to the judicial system. However, a large part of the national production system has been resilient to the crisis and continued to operate and produce. In a subsequent study in 2015, we found that resilient firms generally have the following features: adoption of specific forms of innovation; strategies of diversification of markets and customers; improved quality of their products; investments in r & d and commercial and productive re-organization aimed at reinforcing their international market position. More specifically, we studied the resilient firms located in the south of Italy and verified how: the functioning of the judicial system interacts with all the variables which are the principal features of resilient firms; the performance of justice also affects entrepreneurship and the growth prospects of firms. In the same study, we tried to ascertain whether the course of justice affects the level of confidence of firms and if trust had undergone relevant changes as a result of the recent financial crisis. This level of trust is both an important element in the social capital of a country and a relevant input of a macroeconomic production function. Therefore, we analyzed whether and how the crisis worsened the confidence of firms, and their perception of the effectiveness of the national judicial system. In that study, we concentrated on small firms located in the Apulia region operating in the textile sector which we had previously analyzed (Gurrieri- Lorizio, 2008).

In this paper, the analysis is extended and a national sample of resilient firms, distributed geographically (north-center-south) and operating in the same textile industry is observed. The sample has been created through the elaboration of data from the Chambers of Commerce and INPS. On this basis, we identified the resilient firms and we sent a questionnaire by mail in the first mouths of 2015. Approximately 400 firms answered, almost 67% of the total questionnaires sent. Those firms which were already operating before the crisis, continued working without interruption during the crisis at the same size were defined as resilient. The definition used here is the economic resilience definition of Hill (2008). Our goal is to check their confidence in institutions and justice. The selected variables are chosen for each category: age, gender and relations among firms (firm characteristics); average days credit recovery and loans rate (relations with banks, which could lead to a "contact" with the justice system); failures and judicial contacts (relations with justice). We performed a regression model relating the selected variables to the trust-index elaborated by Istat. The R2 is positive.

Table 1 *Firms' confidence*

North		
Dependent variables	**cCefficient**	**Standard errors**
Age	1.109307	0.0212858
Gender	1.279704	0.0143372
Average days credit recovery	0.861252	0.0523422
Loans rate	1.235773	0.0132837
Failures	0.7676599	0.0752687
Judicial Contacts	1.311854	0.0243197
Relations	0.9528364	0.0780349
Center		
Dependent variables	Coefficient	Standard errors
Age	0.3933144	0.0394951
Gender	0.0814635	0.0650986
Average days credit recovery	0.7703814	0.0818211
Loans rate	0.9037072	.1084972
Failures	- 0.0144138	0.02409230
Judicial Contacts	-0.0015529	0.0302072
Relations	0.6255768	0.1334098
South		
Dependent variables	Coefficient	Standard errors
Age	0.0498086	0.0262119
Gender	0.2549367	0.063969
Average days credit recovery	- 0.0361152	0.0171049
Loans rate	-0.0165154	0.0150306
Failures	0.2154382	0.0799183
Judicial Contacts	-0.0506847	0.0319137
Relations	0.3457828	0.1113804

Source: own elaboration

Small and resilient national firms have a male entrepreneur, are innovative and customer oriented but show some difficulties towards institutions – banks and justice – especially (but not exclusively) in the South of Italy. The resilient firms of Northern Italy show the best performances. In fact, all the selected variables are positive and significant. The situation changes slightly in the center of Italy. From the questionnaires of the resilient firms it emerges that only failures and judicial contacts are negative, thus confirming our hypothesis. We believe that also resilient firms suffer the territorial limits (lower GDP, more violence, bureaucracy, banking relations and, especially, slow justice). Those limits are more evident in the South of Italy, where the average days credit recovery, loan rate and judicial contacts negatively influence the trust of firms. These results are in line with our expectations.

7. Conclusions

An important element of an economic system is represented by those that Douglass North defines as institutions, i.e. the set of formal and informal rules and sanction mechanisms, which express the "rules of the game" influencing the behavior of members of a community. General trust is often positively associated with the quality of economic institutions, and trust has a positive impact on the willingness to perform efficiency-enhancing reforms. The spread of a general sentiment of trust in institutions and among economic actors appears to influence firms and the performance of the system.

In this work, the effects of judicial are explored (in)efficiency on firms' trust. Since theory didn't offer an inquiry about this relation and its consequences, we conducted an empirical research to shed light on it.

Justice's bad performance negatively affects firms' trust in all institutional set-up, and this is a new aspect in addition to the existing literature.

More specifically, our interest is to check out if the factor "trust" is important also for strong firms, identified, in the current economic scenario, as resilient firms.

Results show that, also for resilient firms, trust in institutions and in particular in justice, represents a fundamental element for their expectations and their "animal spirits". The results are cheering, indicating that the negative effects of justice on firms' trust prevail over the incentive linked to favorable perspectives on the future and on the productive decisions of firms.

The international crisis may give cause for authorities to adopt additional reforms for their institutional frameworks and for the control and stability of their system; these reforms should also include an intervention on the time and efficiency of justice. Only in recent months, after a prolonged period of slow growth and a severe crisis in confidence, Italy has embarked on an ambitious reform package aimed at increasing supply potential, improving competitiveness, ensuring fiscal sustainability and – most importantly - enhancing the confidence of citizens and firms in government and institutions, especially in justice. Such reforms would instill more confidence among firms and in the institutions, encourage innovative small- and medium-size firms to operate in the market, and facilitate their competitivity.

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