

Contributions to Management Science

Andrea Calabrò

Governance Structures and Mechanisms in Public Service Organizations

Theories, Evidence and
Future Directions

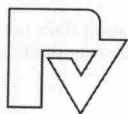


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«*Dubium sapientiae initium*»

René Descartes

(Meditations on First Philosophy, 1641)

Preface

The recent financial crisis has clearly drawn new attention to the role of the State and the inter-relationships between markets and regulations – between the private, public and voluntary sectors. Research on *governance regimes* in public sector service organizations is relatively under-assessed. New directions for what is done are needed, and ethical issues have again received considerable attention in the governance of such organizations. This book contributes to explore New Public Governance as one response to the international governance debate in the aftermath of the financial crisis.

The book is presenting new perspectives on public service governance. It is positioned in the discussion about how public sector organizations are governed, and it goes beyond just responding to existing questions, but it also asks new questions. It tries to respond by making an in-depth literature review about governance in public sector service organizations, and as public sector governance is deeply culturally embedded it also makes some comparisons between Italy and Norway. The studies illustrate both differences and similarities that helps illuminate the importance of history, traditions, cultures and variations in the political context.

The book has four main stated explorative research questions. These are: exploring the governance structures and mechanisms that are used for managing public service organizations; the governance system adopted by Italian Local Public Utilities; the consequences of partial privatization processes for the accountability of public service organizations in Italy and Norway; and the board contribution to innovation in State-owned enterprises. Important in this book is the development and comparisons of New Public Management and New Public Governance in relation to Public Administration. The book thus contributes to develop the understanding of New Public Governance as the main theoretical framework. New Public Governance with its emphasis on ethics and accountability offers an alternative to privatization.

The book uses a multidisciplinary approach with various theories and methods. It has six parts, and the main parts are four independent chapters – all having different contributions. The four chapters are surrounded by a frame with an introduction and conclusion. The four research questions are addressed one by one in the

four separate chapters. The second chapter contains the literature review of public sector service organizations governance. This review assesses the state of the art, identifies gaps in existing knowledge and indicates directions for further research. The focus of the third chapter is on the Italian local public utilities and on the involvement of various actors in the governance of such organizations. A multiple case study is used in this study. The chapter contributes to the debate on local public sector utilities suggesting possible development of agency theory by including forms of citizens' co-production. The fourth chapter is about the conflict of interests, ethics and accountability in the governance debate on privatizing public sector activities. The analysis has been on the Italian *Ministry of Economy and Finance* and various Norwegian Ministries. It shows how in the debate on public service providers accountability, conflicts of interest and unethical behaviour are considered critical to the successful definition and implementation of their governance systems. Furthermore, it shows that alternatives to privatization exist. An alternative is based on citizen participation and fits into the notion of New Public Governance.

Many underlying themes exist across the various chapters and are discussed in the overall book, and the author makes summarizing conclusions on these themes. Some key issues are:

- The significance of the presence of multiple actors operating in the domain of public service organizations which gives more complexity to the overall debate and theories that could be used to address various issues and futures studies. New Public Governance is considered as a regime and offers many logical tools and opportunities to improve the knowledge and management of public services.
- The need to become accountable is increasing in public service organizations, and studies relating different dimensions of accountability, including also *social accountability* and *social audit* and *accountability*, with public service organizations, private not-for-profit organizations and for-profit organizations should be stimulated.
- The role of the board of directors and other *internal governance mechanisms* in public service organizations. Boards in public sector have many similarities with boards in private and not-for-profit organizations in terms of accountability and role in strategic decision-making. There is a reasoning on how it is possible to go from concepts as corporate governance and public governance to that of *public corporate governance*.

The overall book is highly welcomed. Network forms and accountability have been core aspects. The study has contributed to show how governance regimes may be affected by new forms of global organizations, but also how the New Public Governance regime has contributed to shape networked forms of governance.

Oslo, April 2011

Morten Huse

*Professor at BI Norwegian School of Management
President of the European Academy of Management*

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Andrea Calabrò

Abbreviations

CDP	Cassa Depositi e Prestiti
EC	European Commission
EEA	European Economic Area
EFIM	Ente Partecipazioni e Finanziamento Industrie Manifatturiere
ENI	Ente Nazionale Idrocarburi
EU	European Union
GDP	Gross Domestic Product
IRI	Istituto per la Ricostruzione Industriale
LPU	Local Public Utility
MEF	Ministry of Economy and Finance
NPG	New Public Governance
NPM	New Public Management
NPS	New Public Service
OECD	Organization for Economic Co-operation and Development
PA	Public Administration
PAM	Public Administration and Management
PPPs	Public-private Partnerships
SOEs	State-owned Enterprises
UK	United Kingdom
US	United States
VIF	Variance Inflation Factor

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Chapter 1

Introduction

Public services play a central role in the well-being, sustainability and growth of communities, cities and nations. However, globally, public services have emerged from a period of considerable criticism. This period of challenge to public services was generated by the rise of neo-liberal ideologies in the 1980s and 1990s (Hartley et al. 2008). During this period market solutions were implemented instead of State provisions. Privatizations and disinvestments played a central role in that process (Cafferata 1993) taken place on the grounds that management is underpinned by certain general principles and practices (New Public Management) which can be applied across a range of businesses, organizations and sectors (Pollitt and Bouckaert 2004).

The current situation is characterized by new forms of relationships between State and society that are replacing the traditional model. The role of both government and public services are considered fundamental in order to create stable social and economic conditions by actively involving citizens and community organizations. As consequence, the inter-relationships among the public, the private and the voluntary sectors in the design and provision of public services are increasing (Ferlie et al. 2003).

In recent years, two seem to be the key questions: *how are public service organizations governed? And, are we asking the right questions?* These questions arise from the acknowledgement that nowadays, the public sector has relevant differences among countries and many actors are producing and providing public services through different *modes of governance* (governance regimes). Actually, it is possible that public private partnerships (Klijn 2008), outsourcing, State-owned companies, Municipal corporations (Grossi and Mussari 2009; Grossi and Reichard 2008), third sector and voluntary organizations, citizens, etc. coexist. However, in this complex context many issues may arise, for example in relation to the use of public-private and public-public partnerships, co-production with civil society organizations, and other new governance arrangements. Moreover, questions about the extent to which such new organizational forms deliver benefits of innovation, efficiency and responsiveness, as well as their impact on processes of steering and accountability in a democratic context become increasingly important.

Even if this fragmented reality gives more challenges to the provision and production of public services and goods to citizens, it raises many accountability problems due to the overlapping of roles and responsibilities (Skelcher 2010) of the various actors involved in that process. This is the major concern of a networked public sector (Rhodes 2007) and therefore analyses of public service organizations' governance systems are more needed now than ever.

Managing these complex inter-relationships can be harnessed to improve a range of public services by examining them through different theoretical perspectives (e.g. network theories, agency theory, resource and knowledge based theories, political power theories, innovation and change theories, performance and management theories, governance theories, etc.). This approach will lead us to definitely advance both theory and practice, beyond the traditional model of Public Administration and New Public Management, by considering the existence of networked forms of governance, thus arriving at the acceptance of the New Public Governance as the steering theoretical framework (Osborne 2006, 2009).

These aspects are in line with the new awareness of the social, economic, and cultural contribution of public services, public organizations and government has resulted in a significant period of reform and experimentation (Hinna et al. 2006). Besides, at the heart of these initiatives is the idea that improvements to the ways in which public services can be governed, managed and delivered will produce improved outcomes for citizens (Brandsen and Pestoff 2006; Pestoff 2009).

The purpose of this book, therefore, is a new understanding of public service organizations' governance and management. To this aim a *multidisciplinary approach* is used to explore governance regimes, management, innovation, and performance. Moreover, this study attempts to fill the gap in the existing literature by employing qualitative and quantitative research methods to increase our knowledge of public service organizations' governance and management. Finally, questions of when, how and why governance regimes matter to public service performance and accountability, are addressed.

The role of governing bodies and *internal governance mechanisms* seems to be especially important to understand the dynamics and the processes that in turn affect the overall value creation ability of public service organizations. In this respect, it is important to underline that they primarily aim to produce not profit or market positioning but *public value* (Bozeman 2009; Moore 1995). Public value means what is added to the public sphere and this may be social or economic, or it may be political, environmental or even more broadly about the quality of life. Indeed, a public value perspective requires examining the impact of public services on *costumers* and *users* but also the impact on them as *citizens*. Only by taking into account all these issues and the inherent complexity of the analyzed phenomenon, through this book it becomes possible to investigate public service organizations' governance regimes from different angles, with a special emphasis on differences among national contexts, theoretical frameworks, and methods of analysis.

Chapter 2 provides a systematic literature review on these governance regimes. The other chapters are empirical (with qualitative and quantitative methodology of analysis) and are based on different research settings. In particular Chapter 3 is

based on the Italian context and the analysis is on ten listed local public utilities. Chapter 4 makes a cross country comparison of the Italian and the Norwegian privatization processes, mainly focusing on the impact of these processes on public service providers' governance systems. Chapter 5 is based on Norwegian data (collected from 2003 to 2006) on 88 State-owned enterprises mainly operating in the service sector.

Chapter 2 – *Governance structures and mechanisms in public service organizations: a review and research agenda* – provides a systematic literature review on the topic of governance in the public services domain. Indeed, issues related to governance structures and mechanisms are receiving increasing attention worldwide. However, there are often overlaps, misuse and superficiality when using the term governance. Particularly, the governance term is monopolizing and inhibiting the debate on Public Administration and Management. The research questions addressed in the chapter are: which governance regimes are needed and should be developed to manage public service organizations? Is there a need for a review? How do we contribute to the on-going debate? Therefore, the aim is to assess the state of the art on public service organizations governance structures and mechanisms analysing past, present and future evolutions. The arguments advanced in Osborne's article (2006) that Public Administration and Management has actually passed through three dominant modes (Public Administration, New Public Management and New Public Governance) are used. Drawing on this classification, 184 published (from 1970 to 2009) journal articles are quantitatively analysed. The results show significant associations between theories, research settings, sources of data, countries of analysis, and different governance regimes. Thus, moving from what has already been done, we identify critical areas that need further attention and insightful introspection.

Chapter 3 – *Governance Issues in Local Public Utilities: the Italian Perspective* – focuses on Italian listed local public utilities. Through the lens of agency theory, the chapter examines the conflicts of interest arising among the actors (citizens, Local Governments, private shareholders, service providers, etc.) that, at various levels, are involved in local public utilities governance systems. The main results of a multiple case study analysis on ten Italian listed local public utilities are summarized by identifying different and co-existing situations of conflict of interest among multiple principals and agents. Although governance mechanisms (e.g., the board of directors) have different roles and functions and may prevent and mitigate such conflicts, our findings suggest that there are several problematic issues. First, the effects of the ownership structure on board composition and functioning needs to be further explored. Second, higher numbers of independent directors do not mean *actual* board independence. Third, service charters as tools for promoting transparency, accountability and public participation are not well implemented yet. The chapter contributes to the debate on local public utilities governance suggesting possible agency theory developments by focusing on forms of citizens' participation and engagement (e.g., co-production).

Chapter 4 – *Partial Privatization and Public Services Accountability: evidence from Italy and Norway* – highlights that privatization processes have characterized

and changed the public sector in many European countries. However, often they ended up with partial privatizations. In these cases, public service providers, organized in the form of joint stock companies, are still owned by the State. Different theoretical perspectives – New Public Management, New Public Service, and New Public Governance – are used to discuss this issue highlighting open questions on corruption, unethical behaviours and lack of accountability. Through a cross-country case study analysis, the main features of the Italian and the Norwegian privatization processes are shown. The findings call attention to the *stop and go* characteristic of the Italian process and the *reluctance* of the Norwegian government to privatize. Both countries have Ministries which are still the major owners of companies providing public services. Furthermore, although *Ministerial governance* has different development in Italy and Norway, common patterns exist when coming to ethical and accountability concerns. Networked modes of governance and accountability seem to be reasonable alternatives to the lacks generated by partial privatization processes.

Chapter 5 – *Boards of Directors and State-Owned Enterprises' Innovation* – focuses on how internal governance mechanisms impact on State-owned enterprises' innovation. The chapter shows that in the wake of the global financial crisis of 2008–2009, many industrialized States have increased their stakes in corporations (State-owned enterprises) worldwide. Therefore, the idea of governments as *value-creating* institution is increasing and questions concerning innovation are even more pressing. Indeed, there has been a great deal of both scholarly and professional interest in *innovation* believing that it is essential to public sector effectiveness. Theoretical insights from the innovation literature, agency and resource-based theories are done seeking to add knowledge on the relationships between governance mechanisms and State-owned enterprises' innovation. The analysis is on a sample of 88 Norwegian State-owned enterprises mainly operating in the service sector. The results show that some characteristics of the board of directors (e.g., composition, board working-style and board members' knowledge and competences) significantly influence innovation types. Implications for theory and practice and future research directions are discussed.

As shown in this brief description, the analysis is mainly focused on two specific contexts: the Italian and the Norwegian one. This choice allows to make cross countries comparisons and to understand how historical evolutions, political contexts, traditions, and national conditions influence theories, research settings, findings and finally knowledge building. In fact, the Italian context has been mainly characterized by reforms processes leading to situations in which nationally and locally there are private law companies (Saraceno 1981) operating in the production and provision of public services in a context still characterized by low level of competition, despite the continuous European intervention to the creation of a competitive market for public services. To the contrary, the Norwegian context is characterized by an active role of the State which exercises most of the high value activities for the entire community (Christensen 2003). Even if the two contexts are characterized by a high intervention of the State in the economy (with different degrees and tools), substantially, as it is better shown in Chaps. 4 and 5, they have

different patterns and evolving perspectives. However, similarities exist between them and accountability concerns emerge in both the national contexts. Thus, what seems clear is that in the overall context of public services organization there are many stakeholders with different interests (Borgonovi 2005), and they become even more present and exercising their right to *voice*. The boundaries between public services organizations, contexts, and citizens are even more permeable and Public Management studies should thus be oriented in managing this complexity.

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