

Alessandro Giosi, Silvia Testarmata, Sandro Brunelli

**Governance Mechanisms  
in Public Agencies:  
the Italian Practice  
in an International Perspective**



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# **Governance Mechanisms in Public Agencies: the Italian Practice in an International Perspective**

Alessandro Giosi<sup>1</sup>, Silvia Testarmata<sup>2</sup>, Sandro Brunelli<sup>3</sup>

## **Abstract**

New Public Management calls for a clear division between politics and the administration, where the former undertakes strategic planning and defines economic targets and the latter is responsible for public service management. In this context, the agency theory underlines a risk of incoherence between administrative action and political target achievement.

This paper aims to analyse the governance mechanisms and the related accountability requirement in order to investigate if there is a conflict between the autonomy of public agencies and political target achievement. In particular, according to a multiple case study analysis, this paper considers three Italian public agencies: Revenue Agency (AE), Social Security National Institute (INPS) and National Procurement Agency (CONSIP). The research identifies the variables characterizing the relationship between politics and administration and shows the conditions that allow an autonomous public agency to move in a coherent manner along with political targets.

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## **Keywords:**

Agency Theory; Governance; Politics-Administration Relationship; Public Agency.

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## Contents

1. Introduction	3
2. Public agencies in new public management and agency theory	5
3. Research method	10
4. Case study design and variables definition	12
5. Research findings	18
6. Discussion	26
7. Conclusion	28
References	30
Appendix	35

## Editorial notes

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## Introduction

Aiming to reinvent government, New Public Management (NPM) is based on the implementation of organizational principles and tools that leads to the improvement of citizen satisfaction and requirements in the public sector. One of the main action levers of NPM is the separation between politics and administration. The role of politics is strategic planning and the definition of economic policy targets, whereas the administrative structure is responsible for public services management.

Although this competence distribution has led to better efficiency and managerial ability regarding public services organization and, consequently, their provision, it faces clear problems in regard of administrative action in terms of coordination and political coherence. With respect to these problems, a persevering lack of harmony in the relation between politics and administration has been underlined as a result of information asymmetry, which characterizes the principal-agent relation.

Moreover, the separation between politics and administration has been strengthened by the downsizing process in the public central administration and administrative decentralization. This has led to public bodies characterized by strong autonomy, the so-called “executive agencies” (Gains 1999; Talbot 2004). Although the benefits of the agencification phenomenon are clear, the evaluation of the consequences regarding the relationship between the public administration system (involving both politics and administration level) and the citizens is still lacking. While there is still a dominance of national-oriented and static research focused on the agencification phenomenon, but clear-cut international research projects as well as longitudinal research designs have increased, such as Organization for Economic Co-operation and Development (OECD) and Comparative public Organization data Base for Research and Analysis network (COBRA) researches.

This paper is based on the OECD research “*Distributed Public Governance*” published in 2002, which focuses on the governance issue in public agencies, authorities and other government bodies. In particular, the OECD, starting with a legal framework analysis, highlights a series of issues deriving from the



public agencies phenomenon as a tool of NPM regarding governance structure, budget process, and, consequently, political coherence and accountability.

Indeed, the governance analysis investigates governing mechanisms such as board presence or absence, appointment process, board composition, granted delegation degree and board accountability. The commissioning of operational functions to the public agency highlights the political coherence of the public agency behaviour, meaning the public agency's ability to achieve its political targets through the implementation of executive programs. This fact shows a requirement for budget process and ex-post evaluation (or accountability) of public agency activity. In particular, the OECD study emphasizes that public agencies may have autonomous incentives offset by planning and control mechanisms, both ex-ante, such as budget processes, and ex-post, such as reporting mechanisms and audits.

Although the OECD study highlights a variety of operating contexts of the public agency model in a theoretical framework, it does not propose their modelling; rather, it is limited to a descriptive approach. Indeed, the Italian case is not included in this international comparison. Therefore, this paper aims to propose a model of the governance mechanism to point out which conditions allow an autonomous public agency to be coherent with the public policy. In other terms, this research defines the dimensions and the key variables characterizing the relationship between politics and administration referring to public agency, and shows the conditions that allow an autonomous public agency to move in a coherent manner along with political targets. Finally, the paper offers a reliable model of analysis that can be utilized to compare the public agencies at the international level.

In the following section, we identify the theoretical framework and review the principal results of national and international researches on public agencies. Moreover, in section 3 we discuss the selection of cases and the research protocol. The case study design and the results referring to each case study are also presented in sections 4 and 5. In the final part, we discuss the empirical results and compare the cases to make some theoretical implications on the governance mechanisms in public agencies.

## 1. Public agencies in new public management and agency theory

As shown in Table 1, a systematic research of literature lets us define four topics for investigating the public agencies: bureaucracy, new public management, individual behaviour, and agencification phenomenon<sup>4</sup>.

The bureaucracy analysis revealed that the traditional system of public administration is based on the hierarchy principle and functional specialization between politics and administration. System functioning is ensured by administrators fulfilling their responsibility, that are defined by formal rules. However, the functional specialization failed, because the bureaucratic body acquired auto-referentiality power through procedure and information nomination. On the other hand, the political class entered into administrative matters in order to ensure the achievement of political targets. As result of this “bureaucracy confusion” an operational inefficiency and an organization unable to modify its behaviour in reaction to environmental changes emerged.

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<sup>4</sup> A systematic analysis of the literature on public agencies was conducted according to the following research protocol:

- 1) Selection of eight journals with major impact factors according to the classification of the Italian Academy of Management in the disciplines of public administration and management since 1990: Public Administration Review, Public Administration, Public Administration Research and Theory, Public Management and Money, Administrative Science Quarterly, Academy of Management Review, Academy of Management Journal and European Management Journal. Note that even if the theoretical framework coming out from a narrative approach appears multidisciplinary, the research does not consider any journal specifically referred to political science and economic theory.
- 2) Selection of 256 articles linked to our topic through the following process:
  - a. Query 1) built on the field “all text” with the key word *«agency»* and the field “abstract” with the key word *«public»*. Hence, the analysis was refined through a query on the field “subject” with the key word *«public sector»*;
  - b. Query 2) built on the field “subject” coherent with the following topics: agency theory; strategic management, operational control, public management and political science;
  - c. Query 3) built on the field “abstract” with the key word *«board of directors»*.
- 3) In addition, to answer to the need of multidisciplinary approach, there was also built a query on the EBSCO Host and Econlit Databases on the field “abstract” with the following key words: *«politics administration relationship»*; *«downsizing»* (in this case the search was refined with the keyword *«agency»* in the field of “abstract”); *«performance evaluation»* and *«public administration»*.

Table 1: Systematic Review of Literature

AUTHORS	TOPIC	RELEVANT ASPECTS FOR PUBLIC AGENCY	REMARKS
Weber 1978; Selznick 1984; Crozier 1964; Edgeberg 1999; Meter & O'foole 2006.	<b>Bureaucracy</b>	<ul style="list-style-type: none"> <li>Functional specialization within the hierarchy system and absence of human side ( <i>impersonal structure</i> )</li> <li>Full responsibility to fulfil perfectly the rules set up along the bureaucratic chain</li> <li>Auto-referentiality power of bureaucracy through procedure and information domination</li> <li>Incapability of correcting administrative behavior learnt from past mistakes.</li> </ul>	<ol style="list-style-type: none"> <li>Incapability of rules to ensure substantial coherence between politics and administration</li> <li>Not clear separation of functions between politics and administration</li> <li>Inefficiency and irrelevance of result and resource relationship</li> </ol>
Barzelay 1992 and 2001; Forbes & Lynn 2005; Hood 1991; Hood & Peters 2004; Hughes 1998; Osborne & Gaebler 1992; Peters 1996 e 1997; Pollitt & Bouckaert 2000; Rhodes 1996; Flynn 2007; Robins 1987; Williamson 1975 and 1991; Huse 2007; Judge & Zethami 1992; Dean & Shardtman 1996; Verhoest 2005.	<b>New Public Management</b>	<ul style="list-style-type: none"> <li>Decentralization and downsizing in order to reduce the distance between public administration and citizenship</li> <li>Contracting in and out for developing competition in the public resource management</li> <li>Implementation of management tools (such as planning &amp; control systems, accrual accounting and TQM)</li> <li>Development of Human Resource Management through management by objectives</li> <li>Definition of Public-Private Partnerships in order to recovery efficiency in non-marketable sectors.</li> </ul>	<ol style="list-style-type: none"> <li>Performance Management</li> <li>Changing models of governance</li> <li>Separation of functions between politics and administration</li> <li>Market-based organization model</li> </ol>
March & Simon 1958; Simon 1947; Dargie 2000; Niskanen 1971; Williamson 1974; Alchian & Demsetz 1972; Bowling, Cho & Wright 2004; Einsenhardt 1989; Jacobides & Croson 2001 ; Tosi, Katz & Gomez-Mejia 1997; Moe 2002; Hansen & Ejerso 2002; Jensen & Meckling 1976; Conyon & Peck 1998; Falck & Kosfeld 2006; Fama & Jensen 1983; Lane 2005; Klingner, Nalbandian & Romzek 2002; Harrison & Harell 1993.	<b>Individual Behaviour</b>	<ul style="list-style-type: none"> <li>Behavior and individual interest detect the same relevance as rules and price</li> <li>Assessment of principal-agent model</li> <li>Separation between ownership and management</li> <li>Relevance of opportunistic behavior and control needs</li> </ul>	<ol style="list-style-type: none"> <li>Changing role of public administration</li> <li>Competition and market model against inefficiency of hierarchy</li> <li>Analysis of information distribution between politics and administration</li> <li>Political control on public administration and government</li> <li>Prominent focus of studies on private corporate governance</li> </ol>
Pollitt 2005; Harlow 1999; Chun & Raney 2005; James & Rhodes 2003; Gupta, Dirsmith & Fogarty 1994; Farrell 2005; Pollitt, Talbot, et al. 2004; Talbot 2004; Christensen & Laegreid 2005 and 2006; OECD 2002; Ongaro, Fedele, et al. 2006; Massey 1997; Hyndman & Eden 2002; Gains 1999; Hyndman & Eden 2002.	<b>Agencification phenomenon</b>	<ul style="list-style-type: none"> <li>Creation of executive agencies and outsourcing from the hierarchy in for recover efficiency in the public services production</li> <li>Control mechanisms can be also formalized in contracts</li> <li>Automatization raises the managerial discretion and opportunistic behavior</li> <li>Relevance of investigating information distribution between principal-agent</li> <li>Appointment mechanisms based on spoil system for regulate politics-administration relationship</li> <li>Definition of Tripod model characterized by arms length principle; operational functional autonomy; contract</li> <li>Definition of public agency in relationship with the institutional context</li> </ul>	<ol style="list-style-type: none"> <li>Risk of incoherence between administrative action and political targets</li> <li>Defining public agency model related to the country administrative system</li> <li>International literature linked to executive agency model</li> <li>Relevance of the legal framework</li> <li>Descriptive approach of OECD analysis</li> <li>Absence of Italian case in the OECD research project</li> </ol>

The New Public Management paradigm attempts to overcome the bureaucratic model limits in order to recover the efficiency and effectiveness of administrative action. In particular, what appears to be relevant is the decentralization and the downsizing processes, the introduction of quasi-market forms and the implementation of management tools, such as planning and control systems and accrual accounting. In addition the reorganization of the internal structure led to the introduction of systematic and organized management approaches such as the management by objectives (MBO) and the managers accountability on the results.

Moreover, public administration modernization finds its theoretical fundamentals in economic theory. The reason is that the modernization of the public administration marks the transition towards a significant change in economic policy, shifting from a “centralized” method of intervention to a “decentralized” one. A new definition of government assets entails a greater weight of administration respect to the politics determining a change in the governance model of public administration. However, the governance redefinition could lead to risks deriving from individual behaviour aimed at pursuing different objectives than those declared optimal (Dargie, 2000; Niskanen, 1971; Williamson, 1974).

Given the delegation of the public services productive functions, there is a need to define a priori coordination and control mechanisms that can be also formalized in contracts (*contracting-in*). Under the transaction costs theory point of view, the productive and executive costs of the contract, even if they involve costs of control, are lower than the production through the hierarchy system. However, the establishment of executive agencies necessarily entails the delegation of operational functions as well as decision-making, resulting in large spheres of autonomy (Alchian and Demsetz, 1972; Bowling, Cho and Wright, 2004; Eisenhardt, 1989; Moe, 2002). This inevitably raises the question of managerial discretion and opportunistic behaviour resulting from the legal ownership of information, its distribution and its quality.

If the agent possesses relevant information on the public services productive process and is motivated by forms of opportunistic behaviour, then tools such as the contract, which defines ex-ante the expected performances in terms of service provided and costs and involves an ex-post evaluation, may

limit deviations compared to the claims of politician as principal (Jensen and Meckling, 1976; Fama, 1980; Fama and Jensen, 1983; Lane, 2005). Other tools introduced in order to standardize agent behaviour with respect to the principals expectations include the introduction of appointment mechanisms based on the spoil system for the *board of directors* or *general director* of the public agency and payment system based on results. These mechanisms avoid top management “goes against” political targets, but the governance relationship should be investigated in the national context. In fact, the spoil system mechanisms existing in some continental countries, such as Italy and Spain, are in contrast to a general manager growing up through an internal career, such as in the Scandinavian countries. Moreover, the contract between principal and agent cannot exist in similar operative contexts or can have different forms, structures and contents within the same country.

With regard to agencification in the public context, the definition of public agency as a phenomenon has become the focus of recent research. The establishment of executive agencies coincided with the British *Next Steps* program of 1987. As a result, three parameters were identified at the international level (*tripod model*) in order to outline the agencification phenomenon (Pollitt *et al.*, 2004): arm’s length principle; operational functional autonomy; and relationship with parent ministry regulated by contract.

There is still a dominance of national-oriented, static research, but clear-cut international research projects as well as longitudinal research designs have increased (Christensen and Laegreid, 2005; OECD, 2002; Pollitt *et al.*, 2004). A recent initiative to stimulate joint research on public sector organizations is COBRA. The Comparative public Organization data Base for Research and Analysis is an academic research network that aims to discuss ways through which research data on the topic can be gathered, tools to quantitative data gathering can be developed, and how these tools, from an international perspective, can be improved. Regarding Italian public agencies, an interesting academic study was carried out by Bocconi University and the Public Office Department that highlighted that the executive agency model could be investigated in terms of *degrees* concerning disaggregation, autonomy, and contracting (Ongaro *et al.*, 2006).

However, if these are the characteristics that distinguish executive agencies

in every country, then there are some public organizations which perform tasks that do not fully possess the characteristics outlined (OECD, 2002), for example, Public Establishments in France, Bodies of Public Law in Germany, Independent Administrative Bodies in the Netherlands, Autonomous Bodies in Spain, and Crown Entities in New Zealand. Moreover, the public system has relied on public agencies in Sweden since 1700. With respect to public agencies, the government departments provide high autonomy and operational functions and, in some cases, the form of state-owned enterprise.

Therefore, for the purposes of this research, we adopt the broadest definition of public agency: an organization whose aim is to manage the function of public service production closely with the parent ministry but not necessarily regulated by contract. In particular, a public agency refers to the Italian case, entities that manage a public service on behalf of a political structure established since the Nineteenth Century; sometimes, political control has been supported by the market and citizen control.

Furthermore, this paper is based on the OECD approach. In its research, the OECD examined the experiences of Canada, France, Germany, Netherlands, New Zealand, Spain, Sweden, the UK, and the US starting from the *legal framework* analysis in order to outline a first classification of public policy executive bodies. From the *legal framework*, a different intensity of ties can be derived from the political body in terms of *governance and accountability*.

The OECD model is based on three classes of analysis, departmental agencies, public law and private law bodies, that combine the experiences of various countries. Typically, departmental agencies are divisions of the Ministry characterized by wide autonomy but not legal separation. Although legal separation is a more formal than substantial feature of a public agency, we assume the legal separation as a necessary condition to delimitate the field of investigation. Within the two macro legal frameworks (i.e. public law and private law bodies), we identify many types of public agencies, depending on the institutional context of the country.

Applying this model of analysis to the Italian context, within public law bodies, the following types of public agencies can be identified: executives agencies and functional public bodies. With regard to the private law bodies, it is also possible to identify executive agencies according to Next Steps in the

form of private enterprises, including those that operate in a competitive environment.

Indeed, the OECD study underlines that a risk of incoherence with political targets and public policy objectives could derive from public agency autonomy. Therefore, this research explores the relationship between politics and administration (identified in public agencies) in Italy and determines whether there is a problem in terms of political coherence of public administration as the OECD study highlighted. Furthermore, this problem involves definition, analysis and interpretation of *governance and accountability models*, whose study may allow us to conduct international comparisons between Italy and those analysed by the OECD.

Finally, by systematizing qualitative data based on multiple case studies, the importance of the legal framework and a possible overlap of the principles and degrees of the *tripod model* can be analysed. Connected to this aim, this paper investigates the distribution of information between principal (politics) and agent (public agencies) through planning and control processes analysis (Hyndman and Eden, 2002) and the features of the relationship between politicians and administrators referring to the public agencies context.

## 2. Research method

The purpose of the study is to reveal the need for *inductive methods* of analysis that allow us to define and characterize the analysis object. The research strategy used is the *embedded multiple case study* (Yin, 1989). Case study analysis is the most appropriate method when the focus is on an ongoing phenomenon within real operational contexts, such as public agencies. Therefore, the multiple case study method is clearly suited to the proposed analysis (Partington, 2002). This method is often used with a dual purpose: *descriptive and exploratory* of the public agencies phenomenon in the first logic stage and more *explanatory analysis* in the second one (Fattore, 2005; Yin, 1989).

According to the OECD approach, we select three Italian public agencies basing on their legal frameworks for including all kind of public agency. In Italy, the legal frameworks are Executives Agencies, Functional Public Bodies and Private Law Bodies. For each of them it is analyzed a case study considered *ex-*

*emplary*, hence *critical* to study the governance mechanisms of Italian public agencies. Thus we select the following public agencies: Revenue Agency (AE), Social Security National Institute (INPS) and National Procurement Agency (CONSIP).

The Revenue Agency is one of the four central agencies (along with the State Property Agency, Territory Agency and Customs Agency) born with legislative decree No. 300 of 1999 as a result of the Ministry of Finance reorganization. Specifically, the choice of Revenue Agency is due to its greater proximity to citizens who represent taxpayers. The operative task of this public agency is to assist and inform taxpayers in order to achieve the highest fulfilment of tax obligations, fight tax evasion and manage tax disputes. Thus, this is a preferential context in which the investigating mechanisms of governance are functionally related to the understanding of mechanisms of accountability.

The choice of the National Institute for Social Security (INPS) is due to its economic and financial weight on the National Budget. The INPS was established in 1933 as a public body with legal personality and managerial autonomy. The main activity consists of liquidation and payment of both social security and welfare pensions. INPS is a critical case study of the legal framework for functional public bodies and is impressive for its size, catchment area and employees.

The CONSIP S.p.A. was chosen for its strategic value. In fact, CONSIP is a state-owned enterprise founded with a double aim: the first is information system development of the Treasury Ministry and specific project management aimed to improve the level of the information and communication technology (s.c. IT area); the second is management of a project aimed to rationalize the expenditure of public administration through the use of the information and communication technology applied to the procurement processes of public administration. It is not a coincidence that the organizational choice made by the legislature, in the CONSIP case, is an organizational structure typically designated for private business. This choice allows the public agency to operate quickly as a result of a lean and functional organizational structure.

Appointment procedures, strategic guidelines formulation, budgeting and control systems are all part of the elements to be. We start with semi-structured interviews and documentary analysis in order to explore public



agencies and identify key variables and crucial elements that lead us to determine those conditions that allow an autonomous public agency to be coherent with the public policy targets. Each public agency has been investigated according to a case study research protocol as follows:

1. Selection of case studies;
2. Semi-structured interviews with public agencies managers;
3. Analytical systematization of documents;
4. Arrangement of a checklist (yes/no);
5. Submission of checklist to public agency managers;
6. Processing and interpretation of data;
7. Discussion of checklist analysis with public agency managers;
8. Assessment of checklist analysis;
9. Extrapolation of the research results;
10. Discussion of the results of each case; and
11. Discussion of the empirical results in comparative terms.

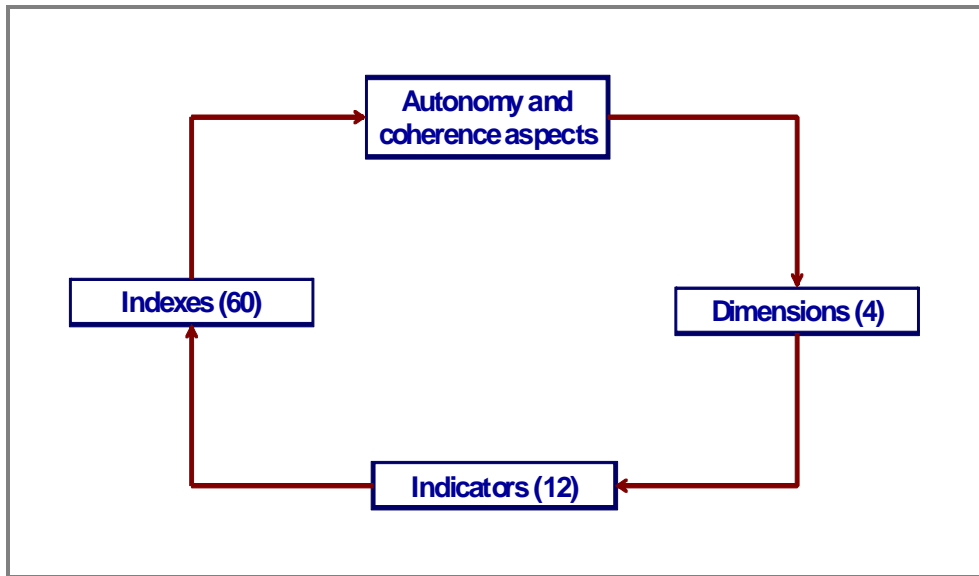
For each case, we analysed the following documents: specific regulation; statute and other legal documents regulating the organization; legal and internal documents concerning the planning and control process; financial statements and all audit documents.

### **3. Case study design and variables definition**

#### **Case Study Design**

In order to investigate the relationship between decision-making autonomy and coherence with public policy fixed from the parent ministry, the analysis of the three case studies taken into consideration allows us to identify four dimensions of analysis of public agencies phenomenon: planning, control, organization structure and governance.

Each dimension is connected to autonomy and coherence through a set of indicators and an index series on which we set up the checklist used for the analysis, as the following logical model shows (Figure 1).

**Figure 1:** Model of Case Study Analysis

The identification of four dimensions of observation highlights the implementation of a planning and control system and the decentralization and downsizing processes of public administration (see *Remarks* in Table 1). As a consequence of the relevance of these instruments, several scholars of various disciplines (such as management, economic theory and political science) have been interested in this issue. This means that public administration is a multidiscipline research field. Obviously, these two major instruments are strictly interrelated; in particular, planning and control system are instrumental to administrative decentralization. The latter determines the organizational autonomy of the administrative structure and increases the complexity of the governance system, because the statutory autonomy granted to the public agencies makes the governing bodies of the public structure formally independent of politics.

Hence, our analysis is based on the assumption that an autonomous public agency could be coherent with the policy targets, whereas the public agency must be coherent in case of complete dependency on the parent ministry. In fact, we do not take into account the pathological situation where hierarchy is used without any form of control of the administrative action. This is a situation of anar-

chy organization that happens if part of the hierarchy moves against rules and targets fixed by the chief.

The analysis revealed that the more planning and control is developed the more delegation and autonomy of the decision-making will increase. These procedures allow us to connect ex-ante political targets with the operational programs of the public agency. These programs also let us control the public administration if they have resources, objectives and target indicators. Moreover, strategic planning is the phase where policy targets explicated by politics are defined and financial resources are quantified during the definition of the national budget process. In fact, the national budget assigns the resources that will be used to finance the operational activity of the public agency. This *trait d'union* between national financial planning and the public agency's budget determines a strong relationship between the parent ministry and the governing board of the public agency. Therefore, it is also possible to assume an ex-ante diffusion of the information between the actors according to the classical process of planning and control (proposal of guidelines – proposal of operational programs – coherent evaluation – contracting and resource definition – indicators setting – monitoring). This process allows a public agency to realize decision-making autonomy in conjunction with the coherence with policy targets. This situation could be verified if the parent ministry defined autonomously the proposal of a guideline. On the contrary, where the public agency is the owner of strategic information, the assumption of the ex-ante symmetric information distribution disappears and could determine the risk of the incoherence between administrative action and policy targets. In this case, the public agency could fix the strategic targets to its advantage. However, the parent ministry gives the ratification of the strategic planning results, even if the strategic planning, at least at an informal level, is realized by public agency governing bodies.

This study also takes into account the dimensions concerning the organization structure and governance model emerging from the case studies analysed. As the checklist shows, the organizational structure is mainly connected to the public agency autonomy (see Appendix). In fact, the delegation of the operational processes functions should be connected with the granting of the organizational autonomy, which increases with the internal structure complexity. We stress that the public agency phenomenon derives from specialization processes

in order to increase the efficiency and effectiveness of public administration. Therefore, it would be far-fetched to imagine specialized entities without organizational autonomy. Moreover, the inclusion of this dimension allows the emerging of extreme cases in which the granting of organizational autonomy does not follow the delegation of functions. The results of this behaviour could invalidate the whole agencification process and put the public agency at the same level of each department of the ministry.

The relevance of the governance dimension emerged from the case studies analysed to consider the different governing models used in relation to the different legal frameworks. The dimension of governance is also linked to the autonomy and coherence aspects. The governance model of the public agency gives evidence of a formal statutory autonomy of the governing bodies, even if it is subjected to appointment process. Moreover, there are tools that could make the autonomy compatible with the targets of public policy. In particular, we refer to the presence of steering bodies, i.e. the presence of ministry representatives inside the governing board and the periodic evaluation of the contract based on meritocratic criteria that links governing bodies within the public agency to the parent ministry. It is evident that the substantial autonomy of the public agency decreases as much as the members of governing bodies come from the parent ministry when the spoil system is used without meritocratic criteria.

### **Variables Definition**

According to the inductive approach, we identified three indicators for each dimension of observation that show the contemporary presence of autonomy and coherence with public policy in a public agency. The maximum score of each indicator is five, meaning that the public agency is autonomous and coherent with public policy. Each indicator is composed of five qualitative indexes ranging from one in the case of analysed feature presence to zero in the case of its absence.

In total, we defined 60 indexes, 39 strictly related to autonomy and 21 strictly related to public policy coherence. The checklist results are provided in the Appendix. The relationship between dimensions and indicators is shown in the Figure 2.

The same number of indicators were used for each dimension, and the same

number of indexes were used for each indicator. This is due to the assumption that all dimensions have an equal impact on autonomy and coherence (see the different colours in Figure 2). In addition, this allows us to provide a graphic illustration, which is useful to make a horizontal comparison between the cases study analysed.

**Figure 2:** Hypothetical Target: Full Autonomy and Total Coherence



Planning and controlling are relevant dimensions of analysis. In fact, the case study analysis shows that there is a contemporary presence of both high level of autonomy and coherence if there is a structured planning and control system. In particular, for the *planning dimension*, we identified the following three indicators:

1. Strategic Planning Implementation;
2. Operational Planning Implementation; and
3. Budgeting Process Opening.

Strategic planning implementation and operational planning implementation evidence how the relationship between public agency and parent ministry develops in the planning phase. In regards to operational programming, if the budgeting processes are not developed and spread out into the public agency, then operational delegation has the tendency to decrease, because the parent ministry tends to take back operational process management. Moreover, budgeting process analysis appears important, because the budget is the instrument through which the agreement between the public agency and the parent ministry regarding operational targets is formalized. Specifically, the budgeting process gives a measure of other stakeholders' involvement. Note that the growth of budgeting increases the autonomy level of the public agency while indicating the presence of other interests, which the public agency has to take into account.

Concerning the *control dimension*, we identified the following indicators:

1. Strategic Control Implementation;
2. Operational Control Implementation; and
3. Audit System Application.

Strategic control implementation and operational control implementation evidence how the relationship between the ministry and the public agency is developed in the feedback phase of the planning and control process. In regards to audit system application, the presence of a developed organizational function dedicated to internal audit enforces the control system, whereas the existence of external audit bodies, apart from the National Audit Court, strengthens the coherence level with public policy targets.

The study of *organization structure dimension* is important to take into account extreme cases where operational process delegation does not move closely to organizational autonomy. This case considered the public agency as a ministry department. Regarding organization structure, we identified the following indicators:

1. Organization Autonomy;
2. Organizational Structure Complexity; and
3. Human Resource Management.

The organization autonomy indicator shows the public agency's ability to define organization structure and functional rules without political pressure. The organization complexity indicator shows the typology of organizational structure adopted by the public agency. The human resource management indicator gives evidence of director roles performed inside the organization structure and the influence that comes from other interests in the appointment process.

The *governance dimension* gives evidence of the adoption of different corporate governance models linked to the legal framework. Indeed, the public agency governance model gives evidence of a formal and statutory autonomy of board of directors, even though it is subordinated to the appointment process. Concerning the governance dimension, we identified the following indicators:

1. Governance Completeness;
2. Governance Complexity; and
3. Board Autonomy.

The governance completeness indicator describes the governing bodies of the public agency related to the legal framework, whereas the governance complexity measures the relationships among the institutional bodies. In addition, it gives evidence of conflict situations related to an unbalanced distribution of decision-making power, especially at the strategic level. Finally, the autonomy of board indicator shows the influence of the parent ministry on board activity.

#### **4. Research findings**

The following section present the critical analysis of each case study. First, the empirical results are shown by a spider-web graphic, including the score of the indicators. Then, we offer a critical analysis of these results.

##### **Revenue Agency**

As a whole, the Revenue Agency shows a fair degree of autonomy and a medium-high degree of coherence with political targets. On the one hand, this empirical evidence is supported by organizational autonomy and planning and control processes; on the other hand, it is due to the strong power concentra-

tion in the general manager's hands, who is at the head of the board of directors, called the *Management Committee*, and the direct expression of the parent ministry (Figure 3).

**Figure 3:** Autonomy and Coherence in the Revenue Agency Case



The strategic and operational planning indicators show a high degree of public agency autonomy in the phases of strategic targets definition and operational programs fixing. In this context, the coherence with the public policy seems to be heavily ensured by the presence of a strategic act and a convention regulating the operational planning, both fixed by the parent ministry. Therefore, political control on public agency activity appears strong. However, public agency autonomy is strengthened by the definition of budget and strategic plan, apart from ministry approval. The budgeting process is not relevant for stakeholders other than the parent ministry.

According to the planning dimension analysis, the control dimension shows complete and well-structured strategic and operational control systems. On the whole, the first two indicators show a total score of 9/10, lacking only wide-



spread communication of strategic control results. In fact, structured tools, such as the Balance Scorecard for strategic control and a *tableau de bord* for monitoring operational activities, are present. However, coherence with political targets is guaranteed by parent ministry controls and evaluations. Moreover, the Revenue Agency distinguishes itself from the other cases through customer satisfaction documents, which seem to be the only elements that link the public agency to the environment. The audit systems are well-developed. On the other hand, the Revenue Agency is subject to D.Lgs. 286/99; thus, a dual system of strategic and operational control emerges: competence of the parent ministry and competence of both the P&C and audit directions of the agency. In fact, the strategic controls are made by the parent ministry, whereas the P&C direction controls the targets achievement, and the audit direction controls the process compliance with the procedures. As for the INPS case, it still misses an external audit function, apart from the National Audit Court activity.

The organizational structure is characterized by a major level of autonomy. The Revenue Agency has adopted its own statute that defines the administration model and manages the general functioning. This public agency also defines its internal rules. The organizational structure is divisional-functional and shows the presence of staff directions and cross-section committees. There are three management levels (central, regional, and local), and each direction has a specific budget. In regards to human resource management, there is an inability to put anyone in charge of governing roles without prior approval by the parent ministry. Apart from that, the agency seems to have full autonomy regarding human resource management.

The Revenue Agency case shows the lowest results on the governance dimension with respect to the other agencies analysed. The governance structure seems to be sufficiently articulated, but most power is held by the general manager, who is a direct expression of the Ministry of Economy and Finance and responsible for the strategic orientation of the public agency. The board of directors, which is chaired by the general manager, has approval functions of general manager proposals and advisory functions of the general manager. In practice, the board of directors appears as staff to the general manager rather than a decision-making body. Therefore, these elements deny the presence of a developed degree of autonomy for governing bodies. In fact, the indicator of

governing body autonomy has the lowest score. In this case, the analysis showed a high degree of coherence with the public policy, because it is not conceivable to have a situation of anarchy in a relevant segment for the national economy, such as taxation.

**INPS**

From the checklist analysis, a high degree of autonomy emerges for INPS, as shown by Figure 4. However, it is not followed by an equal intensity of coherence with public policy. This is not surprising accounting for the fact that increasing discretion for the public agency involves the loss of coherence with public political targets as asserted in the OECD results. Therefore, it is more interesting to verify if the risk of incoherence with public policy is linked with specific dimensions.

**Figure 4:** Autonomy and Coherence in INPS Case



The strategic planning indicator reflects a medium level due to the absence of strategic guidelines defined by the parent ministry and the lack of strategic plan

approval directly by the ministry. In fact, the INPS is characterized by the presence of the Strategies and Supervision Committee (CIV), an internal body appointed by the ministry with the task of strategic proposal approval from the board of directors. The result of operational planning indicator highlights the high development and structuring of the operational planning processes. Thus, the presence of strong tools and the relationship between INPS's budgeting process and the national budget process ensure the simultaneous presence of autonomy and strong ties between politics and public agency. In addition, the budgeting process indicator highlights the presence of internal negotiation during the budget process definition and the involvement of labour unions. Thus, this situation allows the public agency to increase its autonomy, but the risk of incoherence is limited by CIV budget approval.

Although there is a lack of external control by political bodies in the INPS case, the control dimension shows that the internal control function is implemented at both the strategic and operational level. Moreover, the checklist results show a lack of strategic outcome disclosure and customer satisfaction documents. In addition, the internal audit system seems not quite developed; it is perceived as control over management rather than as a tool for monitoring processes. This situation causes potential conflicts between the planning and control direction and the security and audit direction. Finally, it misses an external audit function, apart from the National Audit Court activity.

Regarding the organizational structure, the organization autonomy indicator is symptomatic of a high degree of administrative action. In fact, this public agency has adopted its own statute without parent ministry approval. The governing bodies can define their internal rules without restraint, even if there are parent ministry representatives inside the governing bodies. It seems that the high organizational autonomy is derived from the organizational complexity. In fact, INPS has a very articulated divisional structure, even geographically. In addition, there are three levels of management directly dependent on the governing bodies and on specific committees for solving cross-section issues.

Concerning the governance model, there are three governing bodies: the board of directors, the general manager, and the CIV. This is a two-tier governance system based on the German model. Specifically, the board of directors has propositional and advisory functions, whereas the CIV approves and

deliberates several acts submitted to the other governing bodies. In addition, the audit committee controls both administrative and accounting regularity. Thus, the INPS case shows a high level of governance complexity. Indeed, the highest degree of the governing body's autonomy emerges as a consequence of the presence of independent member majority in the CIV. When the political majority changes, the general manager confirmation is another index that enforces the autonomy of governing bodies. Nevertheless, coherence seems to be ensured by the presence of parent ministry representatives within the board of directors of the public agency on the one hand and by a periodic evaluation of the general manager contract on the other.

### **CONSIP**

CONSIP was developed with the goal to take under control of specific and relevant operational processes through the creation of a body directly related to the parent ministry, even if within the legal framework of the private sector. Hence, this process is the opposite of that characterizing the Next Step experience and the tripod model based on disaggregation.

CONSIP activities are regulated by contracts stipulated with the parent ministry using funds to cover the functional expenses and investment. As underlined in the constitutional Acts, CONSIP “*work according to the strategic target defined by ministry*”. This rule allows us to understand the low level of the indicators concerning strategic planning implementation. In fact, public agency strategic planning, regarding IT investment as well as procurement targets, is defined by the ministry departments to outline the national budget. Therefore, the ministry exclusively delegates operational processes management to CONSIP. Thus, the indicator concerning strategic planning implementation can be interpreted as complete strategic dependency of the public agency on the parent ministry as shown in Figure 5.

Even if there is a strategic plan, strategic planning is exclusively made by the parent ministry. From this, we derive that the definition of the CONSIP operational budget is realized after the approval of the annual and multi-year national budget by Parliament. Thus, the CONSIP budget definition does not seem to be useful for the estimation of the public expenditure or evaluation of political targets. Most often, the budget becomes exclusively a commitment of

operational planning. This low level of freedom in the budgeting process, even if limiting the agency autonomy, allows the agency to be coherent with the political targets fixed in the annual financial act.

**Figure 5:** Autonomy and Coherence in CONSIP Case



The strategic dependency that characterized the planning and programming phase puts the budgeting process inside the relationship exclusively held among parent ministry and public agency through the connected contract, without including any other interests or stakeholders. In fact, the indicator related to degree of opening and transparency of the budgeting earned a score of two. Although dependent on the parent ministry, the public agency has an office for strategic planning and control. It is evident that this function should answer to the demand control and should come from the parent ministry. In particular, the ministry evaluates the working-progress of the projects approved through a contract with the public agency and related to the forecast of public expenditure. This explains the development of the operational control. As a result, the related indicator earned a score of four; the indicator concern-

ing the audit system implementation scored only two. With regard to the external audit, there is an accounting audit from a certified company and a quality certification of the purchasing processes. These kinds of external auditing are taken from the National Audit Court.

Concerning the organizational profile, CONSIP moved from a divisional structure to a functional structure in 2007, which simplified the business processes. Therefore, the organizational complexity indicators earned an intermediate score of three. The level of organizational autonomy is very high due to the private legal framework, which permits an autonomous HRM. In addition, there is a supervising body made up of independent members appointed by the board of directors. The goals of this body are to monitor the organizational model at each level of the structure and to maintain coherence with the operational process, giving evidence of the risk between structure and process forms, which could lead to damages for the public agency.

The governance model adopted by this agency is aligned to that of private corporate. The board of directors has the highest decision-making power and could delegate its power to a CEO. The board of directors is composed by nine members, among whom a president is elected. To date, two members are Parliament representatives; two members are Treasury Ministry managers; and five members are or have been members of the board of directors for private or state-owned companies. Even with the absence of a general director, the presence of the Supervisory Committee yields a governance completeness indicator of four.

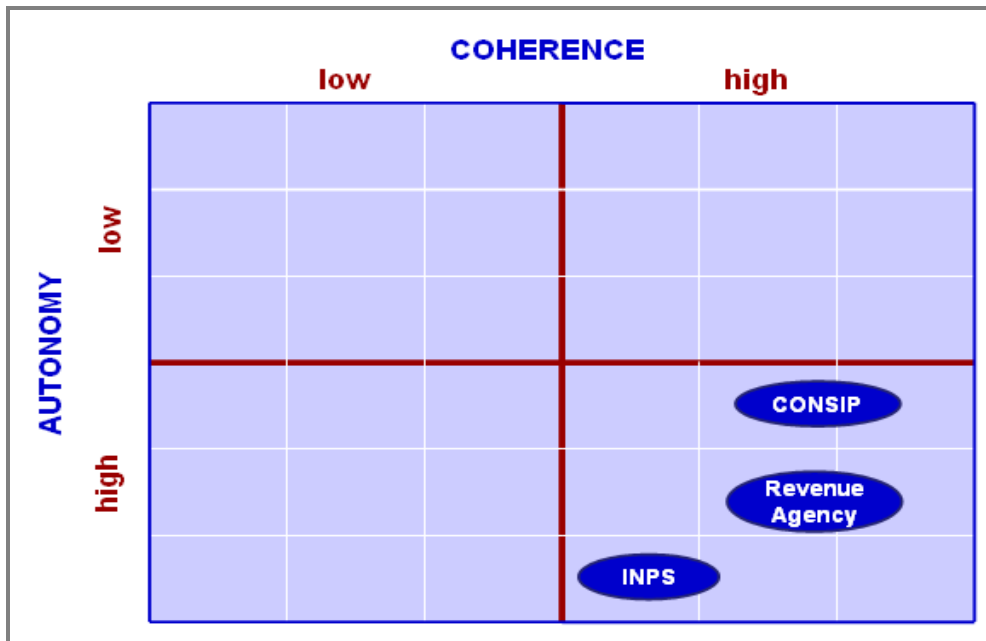
As previously mentioned the decision-making power is attributed to the board but delegated to the CEO, who reports quarterly to the board of directors. Although the CEO can influence the board, it is not conceivable a complete power of the CEO. This fact leads to an indicator of intermediate governance complexity. In regards to the level of autonomy of the governing bodies, the related indicator is three due to the presence of independent directors and the confirmation of the CEO at the change of political majority. Moreover, the absence of directors appointed by other entities besides the parent ministry and the presence of managers of the parent ministry inside the board of directors determine a greater coherence between the public agency management and political targets.

Overall, CONSIP reflects an average level of autonomy, despite the private legal framework. The strong ties that link CONSIP to the parent ministry on the dimensions of planning and control and the structure of governance model show coherent behaviour of the public agency with the targets fixed by public policy.

## 5. Discussion

Figure 6 shows the multiple case study results in comparative terms. Indeed, the matrix highlights the indicators' relevance in terms of autonomy and coherence through a reclassification of indexes based on their incidence on these crucial aspects.

**Figure 6:** Autonomy and Coherence Matrix



From the Italian public agencies analysis, it is clear that all analysed public agencies are located in the quadrant characterized by high levels of both of the

autonomy and the coherence with public policy. Hence, the first conclusion is that *the kind of legal framework adopted by a public agency is an indiscriminative variable of the relationship between politics and administration* in a dichotomous sense. However, relevant empirical results emerge within each legal framework for Italian public agencies.

First, the CONSIP case shows that the adoption of the private enterprise form, where relationships are exclusively developed between public agency and parent ministry, decreases public agency autonomy while the level of coherence with public policy remains high. Therefore, this case shows that the decrease of autonomy raises the coherence level if there are not other external interests that can influence public agency activity. Indeed, this case highlights that the decrease of public agency autonomy is due to information domination in the hands of the politicians and, as a consequence, ensures a major level of coherence (Fama, 1980; Fama and Jensen, 1983). On the contrary, the potential market presence could determine an increase in strategic autonomy. In this case, a tendency toward incoherence between politics and public agency could appear *if there are not enough developed planning and control systems and audit processes*, according to agency theory.

Second, generally speaking, the Revenue Agency is more autonomous and coherent than CONSIP. Although there is an autonomy increase, there is the same coherence level. The reason is that the growth of autonomy in strategic planning is coordinated through the development of control and audit tools. Therefore, the audit and control system and the absence of other stakeholders seem to be the relevant variables to ensure coherence with public policy, independent of the legal framework and governance model adopted by the public agency. In the Revenue Agency case, *the contract is the core aspect of the planning and control system, and it reduces the managerial opportunism of the agent* (Jensen and Meckling, 1976).

Third, INPS shows the highest level of autonomy level. The presence of other stakeholders in the administration processes yields a more complex governance model and more autonomous governing bodies linked to different interests, in particular in the planning phase. The reason is that planning and control processes are not developed as in the Revenue Agency. Therefore, the INPS case reflects Moe's conclusions (2002), which showed the impact of bu-



reaucrats on the electoral outcomes connected with the influence of the bureaucrats' unions on electoral candidates. Whereas Moe demonstrated the political influence on the public agent, we argue that *the inclusion of other stakeholders in the governance model makes the public agency more autonomous; therefore, a risk of incoherence emerges.*

Finally, the legal framework is not relevant to explain the politics-administration relationship if there are no other interests or control pressure in addition to the government. Moreover, in the public context, there seems to be substantial coherence between the public agency and political targets related to the autonomy granted by parent ministry, despite the concerns shown by the OECD study. Hence, we can argue that *politics has many managerial instruments to guide the actions of public agencies.* These instruments are also useful to limit the expansion of public agency expenditure derived from public administrators' preferences (Bowling, Cho and Wright 2004).

## 6. Conclusion

In conclusion, we fill the gap that emerged from the review of the international literature concerning the Italian case. Starting from the OECD analysis, we explore the practice of Italian public agencies using a different research protocol. However, the empirical findings from the case studies allow us to define a more general model of analysis. The proposed model highlights what dimensions we need to take into account to better understand the relationship between politics and administration and identify the key variables as indicators of public agency autonomy and coherence with political targets.

Secondly, our analysis combines cross-sector comparison of cases. However, the generalizability of our findings should not be overstated. The application of this kind of analysis to other cases will require an adjustment (i.e. more indicators, different indexes, more dimensions), but it is necessary to start a discussion on a general model of empirical analysis regarding public agencies.

Moreover, this analysis underlines that there is a strong relationship between politics and administration in the public context. It seems to be a substantial coherence of public agency action with political targets in relation to the autonomy granted by parent ministry despite the concerns showed by

OECD. Thus, the separation between ownership and control does not seem apparent.

Indeed, agency theory dogmas should be contextualized and scholars should take into account also the management tools and governance rules that allow us to regulate the information flow to better understand the governance mechanisms of public agency (Eisenhardt, 1989). Also the informal power of politicians could reduce the substantial autonomy of public agency even if the formal autonomy of the public agency is maintained.

Finally, we point out that the public agency behavior is aligned with the political targets prefixed by politics independently of legal framework differences. Therefore, it seems more interesting to study the separation between ownership and control and the effect of opportunistic behavior under the principal-agent model with respect to the relationship between citizens and politics (politicians and ministries) than to the relationship between politics and administration (meant as public agency).

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## Appendix

INDICATORS						
DIMENSION: Planning	TARGET	AUTONOMY INCIDENCE	COHERENCE INCIDENCE	REVENUE AGENCY	CONSP	INFS
<b>1. Strategic Planning Implementation</b>	5			5	2	3
1. Is there a strategic orientation document (directive) issued from parent Ministry?	1		1	1	1	0
2. Is there a strategic plan of the agency?	1	1		1	0	1
3. Is the strategic plan approved by the parent Ministry?	1		1	1	1	0
4. Does the agency autonomously define the strategic targets ?	1	1		1	0	1
5. Are the strategic targets measurable through quantitative indicators?	1		1	1	0	1
<b>2. Operational Programming Implementation</b>	5			5	3	4
1. Has the agency adopted a structured budgeting process during the past 3 years at least?	1	1		1	0	1
2. Is the budget regulated by a contract with the parent Ministry?	1		1	1	1	0
3. Is there a Planning&Control manual?	1	1		1	0	1
4. Is the budget formulated in accordance with program-resource-target logic?	1		1	1	1	1
5. Is the budget definition related to the financial state act definition?	1		1	1	1	1
<b>3. Budgeting Process Opening</b>	5			2	2	3
1. Is the budget subordinate to internal steering bodies approval?	1		1	0	0	1
2. Is the budget subordinate to external steering bodies approval?	1		1	1	1	0
3. Are there relations with the organization structure during the budgeting process?	1	1		1	1	1
4. Are the labour unions involved in the programming process ?	1	1		0	0	1
5. Are other stakeholders involved in the programming process?	1	1		0	0	0
<b>DIMENSION: Control</b>						
DIMENSION: Control	TARGET	AUTONOMY INCIDENCE	COHERENCE INCIDENCE	REVENUE AGENCY	CONSP	INFS
<b>1. Strategic Control Implementation</b>	5			4	3	4
1. Is there a organizational function dedicated to the strategic control?	1	1		1	1	1
2. Are there structured tools of strategic control?	1	1		1	0	1
3. Does the parent Minister evaluate the strategic targets achievement?	1		1	1	1	1
4. Does the strategic control provide useful results for the public policy evaluation?	1		1	1	1	1
5. Are the strategic control results disclosed to the external environment?	1	1		0	0	0
<b>2. Operational Control Implementation</b>	5			5	4	4
1. Are there periodic reports of management control?	1	1		1	1	1
2. Is there a tableau de board?	1	1		1	1	1
3. Have indicators got an economic and financial nature, both qualitative and quantitative?	1		1	1	1	1
4. Are there customer satisfaction documents?	1	1		1	0	0
5. Are management control results used to redefine the operational activity orientation?	1	1		1	1	1
<b>3. Audit Systems Application</b>	5			4	2	2
1. Is there an internal auditing function?	1	1		1	0	1
2. Is there an internal audit report?	1	1		1	0	1
3. Is there a connection between internal audit and management control?	1	1		1	0	0
4. Is there an external control function a part from National Audit Court?	1		1	0	1	0
5. Are there quality certificated processes?	1		1	1	1	0



DIMENSION: Organization Structure						
	TARGET	AUTONOMY INCIDENCE	COHERENCE INCIDENCE	REVENUE AGENCY	CONSP	INPS
<b>Organizational Autonomy</b>	5			4	4	4
1. Has the agency got a own statute?	1	1		1	1	1
2. Is the statute autonomously drafted by the agency?	1	1		1	1	1
3. Do the governing bodies autonomously deliberate own internal rules?	1	1		1	1	1
4. Are the internal regulations draw up without guide lines issued by parent Ministry?	1	1		1	1	0
5. Are there governing bodies established in order to control the regulations application, where there are parent Ministry representatives?	1		1	0	0	1
<b>Organizational Structure complexity</b>	5			5	3	5
1. Has the agency adopted a divisional organizative model?	1	1		1	0	1
2. Are there more than one directive levels?	1	1		1	1	1
3. Are there directions with coordination functions in staff of governing bodies?	1		1	1	1	1
4. Are there steering committees for particular issues discussion?	1	1		1	0	1
5. Is a specific budget assigned to each direction?	1	1		1	1	1
<b>Human Resource Management</b>	5			4	5	5
1. Are managers employed with a private law contract also?	1	1		1	1	1
2. Are manager roles invested without ex ante approval of parent Ministry representatives?	1	1		0	1	1
3. Are managers autonomous as regard to manage financial, human and instrumental resources assigned to them?	1	1		1	1	1
4. Is the manager payment related to targets achievement and periodic evaluation?	1		1	1	1	1
5. Are human resources negotiated with labour unions representatives?	1	1		1	1	1
<b>DIMENSION: Governance</b>						
	TARGET	AUTONOMY INCIDENCE	COHERENCE INCIDENCE	REVENUE AGENCY	CONSP	INPS
<b>Governance Completeness</b>	5			3	4	4
1. Is there a Board of directors?	1	1		1	1	1
2. Is there a CEO?	1	1		0	1	0
3. Is there a general manager?	1	1		1	0	1
4. Is there an audit committee?	1		1	1	1	1
5. Are there other steering bodies, a part from the audit committee?	1		1	0	1	1
<b>Governance Complexity</b>	5			3	4	4
1. Has the board of directors decision making functions?	1	1		0	1	1
2. If there is a general manager, is he external to the board of directors?	1	1		0	0	1
3. Does the board of directors approve general manager or CEO acts?	1	1		1	1	1
4. Has general manager or CEO strategic orientation functions?	1	1		1	1	0
5. Are general manager or CEO subordinate to other governing bodies?	1		1	1	1	1
<b>Board Autonomy</b>	5			2	3	5
1. Do other institutional entities participate to board appointment process, a part from the parent Ministry?	1	1		0	0	1
2. Are there parent Ministry representatives in the board of directors?	1		1	1	1	1
3. Are independent members of board the majority?	1	1		0	1	1
4. Is general manager or CEO activity regulated by a contract with parent Ministry, which is subordinate to periodic evaluation?	1		1	1	0	1
5. Are general manager or CEO confirmed when political majority changed?	1	1		0	1	1
<b>TOTAL AMOUNT</b>		39	21	29	22	32
		<b>AUTONOMY INCIDENCE</b>		17	17	15
		<b>COHERENCE INCIDENCE</b>				

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