

# ***Public Corporate Governance and Performance Information in Local Utilities: The Different Perceptions of Politicians and Managers***

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**Abstract:** *The modernisation of the public sector has often resulted in an increased focus on performance. In this context, an intense debate has developed regarding the introduction of new tools and governance systems. Particular attention has been paid to performance management and public corporate governance with regard to relationships with both external (stakeholders) and internal (politicians and management) actors.*

*Thanks to public corporate governance in LPUs, public administrations are able to communicate their efforts to citizens in order to satisfy public needs and, at the same time, they can better measure their performance. Political parties in many municipalities and other groups regard public corporate governance as essential to accounting for governmental activities, outputs and outcomes. Managers, for their part, need information about the impact of local public services and in order to carry out day-to-day management of municipal organisation. The paper conducts a detailed analysis of performance information use in LPUs and highlights differences in perceptions and aims among elected officials and managers.*

*The research focuses on a population consisting of 116 local authorities with more than 5,000 inhabitants. The research was carried out through a questionnaire submitted to the manager responsible for the LPUs and to the mayor.*

*The number of authors who have compared the information use of politicians and managers is still limited and the evidence continues to be very mixed.*

**Keywords:** *Performance information, politicians, managers, perceptions, public corporate governance, local public utilities.*

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## **Introduction**

Local public services are the field in which New Public Management (NPM) issues are most in evidence (Hood, 1991). The setting-up of shared entities by local authorities is a widespread phenomenon at European level (OECD, 2001). Over the last decade, many local authorities have created ad hoc companies offering essential services to the local population of end-users. This was believed to be the way not only to satisfy needs more punctually, given the professional competence of these companies, but also to better rationalise resources, which are endemically scarce (Bel & Fageda, 2006; Callan & Thomas, 2001).

The exponential growth of shared entities managing local public utilities (LPUs) has resulted in local authorities finding themselves at the head of authentic business holdings – particularly of public limited companies – that deliver services to citizens. Consequently, the local authority's role is no longer that of mere service provider, but of parent company, holding shares in the public limited companies and owning public services (stockholder). It is also a stakeholder in these companies, while continuing to maintain its institutional role representing the interests of the local population (Gori & Fissi, 2012).

The modernisation of the public sector has often resulted in an increased focus on performance. In this context, an intense debate has developed regarding the introduction of new tools and governance systems. Particular attention has been paid to performance management and public corporate governance with regard to relationships with both external (stakeholders) and internal (politicians and management) actors (Pierre, 2009).

Thanks to public corporate governance in LPUs, public administrations are able to communicate their efforts to citizens in order to satisfy public needs and, at the same time, they can better measure their performance. Van Dooren (2008, 22) argued that, “if we want to study the successes and failures of performance movements, we have to study the use of performance information”. Political parties in many municipalities and other groups regard public corporate governance as essential to accounting for governmental activities, outputs and outcomes. Managers, for their part, need information about the impact of local public services and in order to carry out day-to-day management of municipal organisation (Ter Bogt, 2004). Despite this, the number of authors who have compared the information use of politicians and managers is still limited and the evidence continues to be very mixed (Askim, 2007). No research hitherto has analysed the phenomenon according to its different use and perception in the LPU sector.

The purpose of this paper is to provide a further contribution to current research by investigating two correlated aspects: the main characteristics of public corporate governance in Italian LPUs and comparison of politicians' and managers' views on using performance information.

The paper is structured as follows. After the presentation of the theoretical framework, we briefly review prior literature on public corporate governance and

on politicians' and managers' perceptions regarding performance information. Next, the method is briefly outlined and a discussion of the principal findings follows, with explanation of results. Finally, the paper's conclusions are presented, together with a short discussion of the implications for practice, limits and suggestions for further research.

## **1. Literature review**

### ***1.1 Theoretical framework***

The LPUs' performance depends on some elements such as the conflict of interest that has been defined by the Organization for Economic Cooperation and Development (OECD, 2003) as "a conflict between the public duty and private interests of public officials, in which public officials have private-capacity interests which could improperly influence the performance of their official duties and responsibilities". Moreover, some authors highlighted that the conflict of interest affects negatively public performance (Boyce & Davids, 2009).

In general, the conflict of interest can be analyzed by using the agency theory (Fama & Jensen, 1983; Jensen & Meckling, 1976) which aims to reduce costs agency and the level of conflict of interest. In this paradigm, we have a clear separation between the principal and the agent. According to the agency theory, the distinction between property and manager involves the presence of asymmetry information. Property and managers assume self and opportunistic behaviour, as the first utilizes governance instruments to prevent managers opportunistic behaviours and simultaneously to reduce the conflict of interest. Agency theory has always been applied to problems of companies corporate governance and to conflict of interest between shareholders and managers (Berle & Means, 1932). The same problem affects local government with similar difficulties in driving LPUs.

In particular, local authorities have agency relationship issues between citizens (principal) and the local authority (agent) (Lane, 2005). Yeung (2005) highlights that an effective management is the assumption to ensure managerial autonomy. However, managerial autonomy needs a strong local authority governance as is essential to assure citizens accountability (Rhodes, 2006).

Consequently, the agency theory can be applied to local public services by identifying the principal in local government and the agent in managers (Calabrò & Torchia, 2011). The governance issue in LPUs has been analyzed with reference to public-private partnership (PPP) in the Italian context (Bognetti & Robotti, 2007; Grossi, 2007) and with regard to relationship between dominant shareholders and minority shareholders.

### *1.2 Public corporate governance*

Public corporate governance issues are fundamental in the debate on LPUs (Moore & Hartley 2008; Osborne, 2005). In recent decades, organisations providing LPUs in European countries are experiencing key changes in their governance systems. As a consequence, the discussion on the coordination and steering of public actors and resources is even more important, as it influences the debate on public corporate governance (Ruter *et al.*, 2005). Indissoluble relationships exist between corporate governance and public corporate governance of LPUs (Bosetti, 2009). Corporate governance has been defined as the system by which companies are directed and controlled (Cadbury Committee, 1992). However, public corporate governance distinguishes itself from that of the private sector by its considerable diversity of aims and management models. While corporate governance in private groups focuses mainly on company performance, public corporate governance needs to include aspects related to effectiveness and equity in delivering services (Hodges, *et al.*, 1996; Meneguzzo, 1999). In other words, public corporate governance has to consider the relationships among different actors with different aims and needs. In connection with its public nature, some authors (Bevir, *et al.*, 2003; Lynn *et al.*, 2000; Peters & Pierre, 1998; Stoker, 2006) have highlighted the importance of improving not only the corporate governance system of the LPUs but also the relationships with their “external” stakeholders.

Within the Italian context, previous studies have shown how the majority of local authorities continues to hold shares in companies, although legislation is moving towards constantly “pushing” for a more competitive market, preferring sourcing by means of contracting to third parties (Calabrò, *et al.*, 2013). A weakness of the Italian system is the lack of governance. LPUs must manage and balance various interests and values (Elefanti & Cerrato, 2009) involving different actors. Their governance must be made up of dynamic relationships and consequently, governance tools have to be dynamic. In other words, nowadays, there is a need for management and governance functions to be properly carried out by the administrations in charge (Garlatti, 2005; Gnan *et al.*, 2013; Kettl, 1993; Osborne & Brown, 2005). To date, few Italian local authorities have a governance mechanism for controlling their group, as the majority of them have small dimensions and consequently cannot influence the governance of LPUs owing to their low percentage of shareholding (Fissi, *et al.*, 2013; Gnan *et al.*, 2013).

The governance information system has to collect, process and deliver information in order to support decision-making and disseminate the local authority’s strategies into effective activities and services. In general, Italian local authorities need to develop a multi-dimensional information system in order to better evaluate and govern the competitive, social and environmental performances of LPUs (Boyne, 2002).

We consequently tested the following hypothesis:

*H<sub>p1</sub>*: bigger local authorities have a model of public corporate governance that is well developed and based on planning tools, measurable aims and information exchanges with LPUs.

### *1.3 The boundary between politicians and managers*

A key element of the effectiveness of a governance system is the information disclosed. Performance information - it has been argued - assists politicians in making more informed decisions on budget allocation and on reform. Moreover, performance information is useful for managing the public administration and controlling the production process of LPUs (Brun & Siegel, 2006; Nielsen & Bekgaard, 2013).

In this context, the roles of politicians and managers and the types of performance information used by these actors have been shaped by the evolution of the public sector and the shift after the diffusion of the New Public Management (NPM) paradigm. In the traditional model of public administration, politics and managers were separate (Weber, 1968; Wilson, 1887). NPM continues a division of roles between politicians and managers, who are expected to carry out different activities (Svara, 2001). Politicians are required to draw up visions, goals and general principles of action and to develop strategies, while managers must implement politicians' wishes and carry out day-to-day administration. Indeed, politicians are supposed to play a strategic role, deciding on broad policies and setting targets for managers, rather than being involved in day-to-day operation issues. NPM emphasises that the role of politicians in public service production should be to define long-term objectives and not to be engaged in everyday leadership, which should be the managers' task (Moore, 1995).

The New Public Governance (NPG) approach further complicates the whole picture by taking a "network approach" and positioning both politicians and managers as nothing more than rather special players in a larger game (Osborne, 2010). It has been argued that NPG has become the dominant regime of public policy implementation and LPU delivery, with a premium being placed upon the development of sustainable public policies and public services and the governance of inter-organisational relationships. In this scenario, politicians become joiners-up, deal-makers, seeking to build and maintain the networks based on agreed policies, while managers do the "footwork" in the network and must be able to translate strategies into actions.

Research, however, has raised many doubts as to whether public management reform has shifted the borderline between politicians and managers. Some have seen managers invading politics and taking over slices of political territory (Clarke & Newman, 1997; Pollitt, 1993; Stewart, 1994). Others, by contrast, suggest that management reform has been a vehicle by which politicians

have gained a tighter grip of their managers (Halligan, 1997; Peters & Pierre, 2004).

With reference to the Italian context, Pollitt and Bouckaert (2011, 167-168) highlighted the general loss of confidence in the political system and in public managers, without direct evidence of a shifting borderline between politicians and managers. Other recent results, by contrast, suggest that the boundaries between politicians and managers, especially in Italian municipalities, tend to be quite blurred and that the role of both actors is more similar than expected or than found in the previous literature (Liguori *et. al.*, 2012).

#### ***1.4 Performance information use***

According to earlier research, performance information is data and evidence that is produced and used to assess and manage the performance of an organisation (Guthrie & English, 1997; Pollitt, 2006; Van Thiel & Leeuw, 2002). This conceptualisation acknowledges the importance of distinguishing between performance measurement and management, where the latter is mainly concerned with the use of performance information for a variety of purposes (Askim, 2007; Behn, 2003; Hatry, 2006; Melkers & Willoughby, 2005; Saliterer & Korac, 2014).

Brun and Sigel (2006) suggest that focusing on performance measurement and management is fundamental for improving decision-making and effectiveness. In other words, information about performance is a useful management tool for building the bridge between available resources and achieving priority goals and objectives. It is an important part of political leadership, too (Poister & Streib, 1999). Performance reporting is one precondition for political assessment of the managerial and technical level of governance and is consequently an integral part of the logic of public sector governance (Lynn *et al.*, 2001).

The amount of empirical research on the use of performance information has grown significantly in recent years (Saliterer & Korac, 2014). Several authors have tried to study how performance systems and related information are perceived by their users (Moynihan *et al.*, 2012). Some studies focus on external users, such as citizens (Brusca & Montesinos, 2006) and finance institutions (Lopez Hernandez & Caba Perez, 2004). Other authors have focused on the role of the internal users. Among these studies, only a few scholars distinguish between politicians' and managers' views or study just one category of actors (ter Bogt, 2004; Lee, 2008; Wang, 2000).

In general, it has been observed that public managers consider performance information more important than do politicians, as they tend to rely on informal communication channels (Ezzamel *et al.*, 2007; Likierman & Vass, 1984; Olson & Shalin-Andersson 1998). Politicians appear to appreciate performance information less than managers do (Brusca, 2007; Paulsson, 2006; Saliterer & Korac, 2014). In a study comparing performance management across European countries and across policy sectors, Pollitt (2006) concludes that measuring performance has become

almost universal but that politicians do not take much interest, as performance measurement and performance management remain activities conducted chiefly by and for managers.

These results support the idea, widespread in public administration and management literature, that the political and the administrative spheres are separate and driven by different rationalities (Schedler, 2007). Politicians traditionally feel responsible for the definition of mission and strategic goals and they are generally driven by the search for consensus. Managers are seen as responsible for the neutral execution of strategies and they are driven by the search for efficiency and effectiveness (Schedler, 2007). Cassia and Magno (2011), highlight that politicians, unlike managers, perceive citizens as an important source of information, when defining policies for public services. Moreover they have different views on citizens' involvement (Ebdon & Franklin, 2006; Hildebrand & McDavid, 2011).

The manager, meanwhile, concentrates his attention on the levels of efficiency, effectiveness and competitiveness of the administrations, which he therefore considers to be authentic businesses (Liguori *et al.*, 2012; Schedler, 2007).

However, as already mentioned above, no authors have analysed the differences in performance information use by elected officials and managers with reference to the LPU sector. It may be that the perceptions of politicians and managers differ in regard to the importance and the use of performance information (Askim, 2009; ter Bogt, 2004; Melkers & Willoughby, 2005; Nielsen & Baekgaard, 2013). As a consequence, we tested the following hypothesis:

*Hp2:* Public managers pay more attention to accounting information than do politicians.

*Hp3:* Public managers use corporate governance information for management control while politicians use it as information on stakeholder views.

## **2. Method**

The research focuses on a population consisting of local authorities representing the chief towns of the Italian regions. As previous research showed, larger organisations are more externally visible and more subject to demand for performance management reform (Anessi-Pessina *et al.*, 2010). Moreover, a growing number of citizens to be served increases complexity and results in greater and altered demand for information (Saliterer & Korac, 2014). The consequence is that larger-scale government leads to higher focus on performance information use by politicians and managers (Bourdeaux & Chikoto, 2008; Moynihan & Ingraham, 2004).

Our population comprised 116 local authorities with more than 5,000 inhabitants across all of Italy.

The research was carried out through a questionnaire submitted in September 2014. It was administered as an e-mail attachment (Schutt, 2004) sent to the manager responsible for the LPUs and to the mayor. In order to obtain a better response level to the questionnaire, following the first e-mail, three reminders - clearly decreasing in effectiveness - were sent in the form of further e-mails (Bruschi, 2005, 188). Unfortunately we were unable to reach 16 of the local authorities via e-mail. Final feedback was from 52% of the population.

We used qualitative methodology to pursue our research aim, by means of a semi-structured survey with multiple-choice questions. Several authors have used questionnaires to analyse Italian local government on different topics, such as accounting reforms (Anessi Pessina & Steccolini, 2007; Nasi & Steccolini, 2008), accountability (Steccolini, 2004), governance (Fissi *et al.*, 2013) and European view (Pina *et al.*, 2007).

Given the issues indicated by the literature in evaluating the governance of local groups, we organised our questionnaire into three sections. Section one contains information about the main characteristics of the local authorities' governance system. The aim is to analyse the implementation of budgeting and performance systems for the governance of LPUs.

The second part of the questionnaire concerns the perceptions of managers about the usefulness of financial information and about the use of these data for performance measurement.

The last section is similar to the previous one and was submitted to politicians in order to understand their perception about financial information and performance measurement.

### **3. Discussion and results**

Of those authorities that replied to the questionnaire, most were concentrated in northern Italy (54%). The remaining municipalities were equally divided between the centre (23%) and the south (23%).

As far as regards size, the majority of responses (61%) came from authorities with over 100,000 inhabitants, while 31% came from those with 50,001-100,000 inhabitants and 8% from those with 20,001-50,000 inhabitants. None of the smaller authorities, with under 20,000 inhabitants, took part in the survey.

Survey results are presented based on the structure of the questionnaire given in the Appendix.

**HP1.** To confirm or deny the first research hypothesis, we divided the population into two groups: municipalities with between 20,000 and 100,000 inhabitants (Group 1) and those with over 100,001 inhabitants (Group 2) (Tables 1 and 2). Authorities with less than 20,000 inhabitants were not included in Group 1 because none of the five municipalities in this population had taken part in the survey.

**Table 1. Comparison between municipalities with 20,000-100,000 inhabitants  
(Group 1)**

| Question number | a   | b   | c   | d   | e   | f |
|-----------------|-----|-----|-----|-----|-----|---|
| 1               | 90% |     |     | 10% |     |   |
| 2               | 50% | 20% |     |     | 30% |   |
| 3               | 40% | 30% | 20% | 10% |     |   |
| 4               | 40% |     | 30% | 20% | 10% |   |
| 5               | 60% |     | 30% | 10% |     |   |

**Table 2. Comparison between municipalities with 100,001 and over inhabitants  
(Group 2)**

| Question number | a      | b      | c      | d      | e      | f     |
|-----------------|--------|--------|--------|--------|--------|-------|
| 1               | 81,25% | 12,50% | 6,25%  |        |        |       |
| 2               | 37,50% | 6,25%  | 18,75% |        | 37,50% |       |
| 3               | 56,25% | 25%    | 12,50% | 6,25%  |        |       |
| 4               | 6,25%  |        | 43,75% | 43,75% |        | 6,25% |
| 5               | 25%    |        | 37,50% | 37,50% |        |       |

As far as model governance was concerned, in both groups the majority of municipalities acted as parent company holding share in LPU entities (90% Group 1 and 81.25% Group 2). However, the larger authorities (Group 2) more frequently involved a financial (12.50%) or operative (6.25%) holding company (Question 1).

Moreover, Group 1 municipalities more frequently communicated with shared entities or holdings through a specially created unit (50%) or required each department to interface with the entities relevant to their own area (30%). The majority of Group 2 municipalities also adopted these same solutions but, surprisingly, the percentage of those with a special unit falls to 37.50%. Some of the large authorities interviewed also chose to entrust the task to their finance department (6.25%) or executive office (18.75%) (Question 2).

In general, the planning and control activities involved only some of the municipality's shared entities (40% for Group 1 and 56.25% for Group 2), while it concerned the entire world of entities more often in Group 2 (Question 3).

Group 1 municipalities, in planning activities of shared entities, rely mainly on pure accounting (40%) or other nature (30%) objectives. Group 2 authorities, on the other hand, consider both accounting and other objectives (43.75%) and equally quality and general guidelines (43.75%) (Question 4).

Consequently, control of local public group by the larger municipalities (Group 2) is based on accounting and other data coming from shared entities (37.5%) and is also carried out through their representatives on the shared entity's management boards (37.5%). Over 60% of Group 1 municipalities prefer to make use of accounting data from the official documents of the shared entities, particularly from financial statements (Question 5).

Table 3 gives the data without distinguishing the demographic dimensions of authorities.

**Table 3. The governance system of Italian local authorities**

| <b>Question number</b> | <b>a</b> | <b>b</b> | <b>c</b> | <b>d</b> | <b>e</b> | <b>f</b> |
|------------------------|----------|----------|----------|----------|----------|----------|
| <b>1</b>               | 82.75%   | 6.9%     | 6.9%     | 3.45%    |          |          |
| <b>2</b>               | 50%      | 12.5%    | 12.5%    |          | 25%      |          |
| <b>3</b>               | 50%      | 25%      | 17.86%   | 7.14%    |          |          |
| <b>4</b>               | 15.62%   |          | 34.38%   | 43.75%   | 6.25%    |          |
| <b>5</b>               | 30.56%   | 8.33%    | 41.66%   | 16.67%   | 2.78%    |          |

From the point of view of governance (Question 1), the majority of authorities (82.75%) notes that the municipality is in charge of the governance of LPUs and only a minority uses a third-party holding, whether financial or operative.

Half the authorities entrust the operative tasks of governance to a special department, under various names (Question 2). In other cases, there are frequent relations between a single department and the shared entities (25%) or other relations between top management or financial director and the shared entities too (12.5%). Clearly the best solution for organised, effective governance is to entrust tasks to a special office, thus avoiding problems of coordinating decentralised solutions from the separate departments.

One difficulty was found in the activities of planning and controlling shared entities (Question 3), since only 25% of authorities use a single model of governance. 50% of local authorities use governance models only for shared entities considered more important, due to the impact of their services in the local area or to their financial performance. Lastly, a sizeable percentage (17.86%) carries out governance using the mandatory documents given under Italian law for authority planning although these, being inflexible, are quite unsuitable for the job.

We then investigated in depth the objectives given to the LPUs (Question 4). 43.75% of municipalities lay down qualitative and general guidelines that do not allow for measurement of results. Only 34.38% allow for measurable objectives with various kinds of accounting and other data. Lastly 15.62% of authorities rely on financial performance data. A sizeable number of interviewees, therefore, set governance objectives not connected to the performance of LPUs and this practice leaves room for improvement (6.25%).

Information flows between the authority and its shared entities chiefly consist of each company sending its financial results, particularly as reports throughout and at the end of the year (Question 5). Qualitative information, such as customer satisfaction surveys or technical indicators linked to the type of service (8.33%) seems to be less used.

**HP2 and HP3:** Our survey also showed some differences of opinion expressed by politicians and managers in both Groups (Table 4 and 5).

**Table 4. Comparison between municipalities with 20,000-100,000 inhabitants  
(Group 1)**

| Question number                                   | a   | b   | c   | d   | e | f |
|---|-----|-----|-----|-----|---|---|
| <b>Questions submitted only to Managers (m)</b>   |     |     |     |     |   |   |
| <b>6m</b>   | 60% |     | 40% |     |   |   |
| <b>7m</b>   | 60% |     | 40% |     |   |   |
| <b>8m</b>   |     | 20% | 50% | 30% |   |   |
| <b>Questions submitted only to Politician (p)</b> |     |     |     |     |   |   |
| <b>6p</b>   | 20% |     | 50% | 30% |   |   |
| <b>7p</b>   | 40% | 10% | 50% |     |   |   |
| <b>8p</b>   | 10% | 30% | 50% | 10% |   |   |

**Table 5. Comparison between municipalities with 100,001 and over inhabitants  
(Group 2)**

| Question number                                   | a      | b      | c      | d      | e | f |
|---|--------|--------|--------|--------|---|---|
| <b>Questions submitted only to Managers (m)</b>   |        |        |        |        |   |   |
| <b>6m</b>   | 6.25%  | 6.25%  | 87.50% |        |   |   |
| <b>7m</b>   | 56.25% | 6.25%  | 31.25% | 6.25%  |   |   |
| <b>8m</b>   | 6.25%  | 31.25% | 37.50% | 25%    |   |   |
| <b>Questions submitted only to Politician (p)</b> |        |        |        |        |   |   |
| <b>6p</b>   | 18.75% |        | 50%    | 31.25% |   |   |
| <b>7p</b>   | 43.75% | 25%    | 25%    | 6.25%  |   |   |
| <b>8p</b>   | 6.25%  | 37.50% | 37%    | 18.75% |   |   |

Regarding control of shared entities, the majority of Group 1 managers preferred to rely on financial results (60%) and, to a lesser degree, on other data (40%). In Group 2, on the other hand, managers' interest focussed mainly on the latter (Question 6m).

Politicians rely mainly other data different from financial perspective (in both Groups, about half of those interviewed), but are more sensitive to customer satisfaction of end-users of local public services provided (for both Groups, about 30%) (Question 6p).

Generally, managers use data and information obtained through governance instruments for the municipality's processes of planning and control (60% for Group 1 and 56.25% for Group 2) and for internal discussion in internal structures (40% and 31.25% respectively) (Question 7m).

The majority of politicians in large municipalities (43.75%) uses again information principally for the municipality's processes of planning and control and subsequently for dissemination to stakeholders (25%) and internal discussion

(25%). By contrast, in smaller municipalities information is used for internal discussion (50%) and for planning and control processes (40%) (Question 7p).

The last questions of the questionnaire investigated the use of corporate governance information from managers and politicians.

Group 1 politicians consider the governance instruments developed by their municipality to be sufficient (50%), while 30% of them consider the instruments adequate. Group 2 politicians show similar opinions to those of Group 1, though both percentages are around 37.5% (Question 8p).

Lastly, Group 2 managers consider the governance instruments of their municipality to be adequate (31.25%) or sufficient (37.5%) while Group 1 considers 50% sufficient (Question 8m). In general, managers show higher percentage of insufficient for government instruments of their municipality, particularly in the smallest ones.

As discussed above, the questionnaire compare perception of the governance model by managers and politicians, both of whom are asked the same questions (Table 6, the options “e” and “f” have no respondent.).

**Table 6. The different perceptions of politicians and managers**

| Question number        | a      | b      | c      | d      |
|------------------------|--------|--------|--------|--------|
| <b>Managers (m)</b>    |        |        |        |        |
| <b>6m</b>              | 27.58% | 6.9%   | 58.62% | 6.9    |
| <b>7m</b>              | 51.43% | 5.71%  | 40%    | 2.86%  |
| <b>8m</b>              | 4%     | 28%    | 40%    | 28%    |
| <b>Politicians (p)</b> |        |        |        |        |
| <b>6p</b>              | 25%    | 3.13%  | 46.87% | 25%    |
| <b>7p</b>              | 47.22% | 16.67% | 33.33% | 2.78%  |
| <b>8p</b>              | 7.69%  | 34.62% | 42.31% | 15.38% |

As already seen (Question 6m), technical governance bodies are more interested in financial performance (27.58%) and other data (58.62%), but less interested in customer satisfaction surveys (6.9%) and qualitative performance results (6.9%).

In order to understand the different perception of information use for governance of LPUs, the above question was asked of politicians (Question 6p). There was a similar interest in financial performance (25%) and other data (46.87%), but a marked increase of attention towards customer satisfaction surveys (25% of interviewees).

Our survey also investigated the use of information in governance of the local authority group (Question 7m). The management structure identified two main uses: in processes of planning and control (51.43%) and for internal discussion within the authority (40%). Attention towards external communication was low.

The same question, put to politicians, confirmed previous results (Question 7p): processes of planning and control (47.22%) and internal discussion within the authority (33.33%). Attention towards communicating performance of the shared entities to stakeholders did grow, although less than might have been expected. This was held to be the main use of governance information by only 16.67% of politicians.

At the end of the questionnaire interviewees were asked for an overall opinion on the development of the authority's governance instruments (Question 8m). Replies from management were generally positive: 40% thought the governance model sufficient for the municipality's requirements and 28% even judged it to be adequate. On the negative side, 28% considered the governance model to be insufficient and in need of improvement, while only a tiny 4% thought it oversized for actual information requirements.

The vision of politicians did not differ greatly from that of managers but was on the whole more positive about the state of the art of governance (Question 8p). 42.31% of them judged the model applied to be sufficient and 34.63% thought it adequate. Perceptions of over-dimension grew to 7.69% while those perceiving a need for improvement fell to 15.38%.

At the end of the questionnaire, both managers and politicians were asked to express their opinion on the state of the art and possible improvements to the governance model used by their municipality (Question 9).

The answers threw up some common themes: improvement of information flow, perhaps digitally, between authority and shared entities, and increased control of non-accounting elements, such as customer satisfaction surveys.

Managers then came up with some particular requirements. These included a need to define measurable planning objectives for shared entities and centralisation of management functions of shared entities in a single organisation structure, avoiding dispersion among various parts of the authority. Lastly, the possibility – especially for smaller authorities – to have governance models for shared entities in common with other municipalities in their local area.

Politicians showed a demand for improved information within the authority, especially on the part of managers towards politicians. Lastly, they wanted further simplification of the management of shared entities. This aspect, however, would seem to be a question of general policy, which goes beyond the mandate of the single local authority.

### **Conclusions**

Our study conducts a detailed analysis of performance information use in LPU's and to highlights differences in perceptions and aims among elected officials and managers. The article's main interest lies in the insight gained into the different perceptions of the actors regarding using performance information from local utilities. Politicians and managers differ in their attention to and use of governance

information. It is important to minimise these differences and to further engage politicians in governance mechanisms which, after all, are what provide funding for this practice. More importantly, creating a favourable cultural background is a priority - utilisation of performance information should not be limited to the post-decisional stage of decision-making.

The corporate governance system collects, processes and delivers information in order to support decisions of managers and to disseminate local authority strategies, defined by politicians, into effective activities and services.

The HP1 to suggests that the larger local authorities (Group 2) have a more developed model of public corporate governance than do the smaller ones. Our research results, however, show that these cannot yet be considered properly developed, while 50% of local authorities only adopt governance models for those shared entities considered to be more important, due to the impact of their services in the local area or to their financial performance. Furthermore, a sizeable percentage (17.86% of all municipalities) carries out governance using the mandatory documents given under Italian law for authority planning although these, being inflexible, are quite unsuitable for the job.

The non-participation in our survey of authorities with fewer than 20,000 inhabitants is also notable, smaller local authorities being unable to influence the governance of LPUs owing to their low percentage of shareholding. Consequently, they invest less in public corporate governance systems (Fissi *et al.*, 2013).

With reference to different perceptions between politicians and managers of LPU information, our second hypothesis was not confirmed. Both categories of users are strongly concerned with financial information and other data. This result may be explained with reference to Askim's research (2007). He pointed out that politicians derive policy ideas from performance information but without mentioning it as their source. In other words, financial information is a source for political decision-making but not the only source, as face-to-face interaction with the local population is also important.

Both politicians and managers use performance information for reaching decisions and for controlling objectives. The third hypothesis, therefore, is not clearly confirmed. Similar percentages of politicians and managers say they use governance information for management control (47.22% and 51.43% respectively). However, managers are not interested in using information for external communication. These results confirm previous research into the Italian context (Liguori *et al.*, 2012) where boundaries between politicians and managers are quite blurred and there are many contaminations among different managerial and political interests and positions.

Performance information perceptions and consequently the use of performance information are important not just to scholars of administrative reform, but can also inform citizens on public policy, on accountability and other areas of cross-disciplinary interests. Nowadays, citizens, elected officials and public managers have in general more performance information than ever

(Moynihan & Pandey 2010), yet we note a scarcity of performance information about LPUs. Our results highlight the need to develop governance mechanisms regarding the relationships between the local authority and LPUs (Gnan *et al.*, 2013).

Moreover, this study contributes to the on-going debate on the importance of different types of performance information for internal users. In this theoretical context, developing adequate performance reporting can be considered to facilitate systematic dialogue between distinct managerial and political rationalities, diverse experiences, values and knowledge in a comprehensive cycle of control within the political-administrative system (Schedler, 2003).

While our research analyses the Italian context, it could be of interest to scholars from other European countries experiencing the consequences of New Public Management reform, suggesting common trends or significant differences. The appropriate implementation of governance systems may help managers and politicians to perform their tasks better.

We are aware that one weakness of this study lies in the generalisation of results, as some authors consider the use of performance information to be discretionary individual behaviour, which is hard to capture as it often cannot be directly observed (Moynihan & Pandey, 2010; Moynihan *et al.*, 2012). In other words, individual values, attitudes and personal characteristics (such as age) impact on perception, but our study did not highlight these differences. To better understand performance information's role in political and managerial decision-making processes, we need more research asking under what circumstances politicians and managers are likely to use and emphasise performance information. Future research should also focus on aspects associated with individuals, such as their time, interest, incentives and practical experience.

This research also has other limitations. Firstly, the impact and consequently, the perception of performance measurement adoption is linked to performance measurement availability: higher performance information availability leads to higher use by politicians and managers (Saliterer & Korac, 2014). Further research might profitably examine different perceptions in performance use information in different settings, such as local authority dimension or geographical location.

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## **APPENDIX 1: QUESTIONNAIRE**

### **Part only for managers**

- 1. Which governance model for shared entities does your municipality use?**
  - a. The municipality itself
  - b. The municipality through a financial holding
  - c. The municipality through an operative holding
  - d. Other \_\_\_\_\_
- 2. In your municipal organisation structure, who is responsible for relations with shared entities or with the holding?**
  - a. Specially created office – give name and department
  - b. Finance Department
  - c. Head Office
  - d. Mayor's Office
  - e. Each sector is responsible for relations with the shared entities relevant to their area
  - f. Other \_\_\_\_\_
- 3. Does your municipality carry out planning and control activities into shared entities?**
  - a. Yes, only into some of them (e.g. the main ones)
  - b. Yes, into all of them using the same model
  - c. Yes, using the mandatory documents under Italian law
  - d. No
  - e. Other \_\_\_\_\_
- 4. How is shared entity planning actually carried out?**
  - a. By defining measurable objectives of a purely accounting nature (expenses, revenues, costs etc.)
  - b. By defining measurable objectives of a non-accounting nature (result indicators, technical indicators on services delivered etc.)
  - c. By defining measurable objectives of both accounting and other nature
  - d. By defining qualitative and general guidelines
  - e. Other \_\_\_\_\_
- 5. How does the municipality control shared entities?**
  - a. The shared entity sends the municipality accounting data (interim and year-end results etc.)
  - b. The shared entity sends the municipality non-accounting data (result indicators, technical indicators on services delivered etc.)
  - c. The shared entity sends the municipality accounting and other data
  - d. The municipality delegates control to its representatives on the shared entity's board
  - e. Other \_\_\_\_\_

### **Part for managers (m) and politicians (p)**

- 6. Which of the following results most interest you in the control phase?**
- a. Financial and performance situation of the shared entity
  - b. Non-accounting data (result indicators, technical indicators on services delivered etc.)
  - c. Other data
  - d. Customer satisfaction surveys
  - e. None of the above (give reason)
- 7. How are data and information obtained through governance instruments used?**
- a. In the municipality's planning and control process
  - b. To communicate the shared entity's performance to stakeholders
  - c. They are presented and discussed in a political venue
  - d. Other
- 8. For your information needs, are the municipality's governance instruments:**
- a. Over-dimensioned
  - b. Adequate
  - c. Sufficient
  - d. Insufficient
- 9. With reference to your reply to Question 8, what would you suggest to correct/improve the situation?**

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