

# Chapter 7

## Italian Public Administration Reform: What are the Limits of Financial Performance Measures?

Paolo Ricci and Renato Civitillo

**Abstract** The Italian public sector reforms in recent years have demonstrated an over-reliance on accounting-based financial measurements which has essentially created a sort of ‘hierarchization’ of performance. This chapter aims to demonstrate whether and how this predominance leads to negative consequences in the evaluation (and management) of public sector organizations: First, because in definitive governments, performance should be assessed coupling financial parameters with non-financial measures and qualitative judgements (Jones and Pendlebury in *Public Sector Accounting*, 6th ed., Pearson Prentice Hall, London, 2010); second, for the lack of a systemic approach, financial performance should not be the ultimate objective of public management but instead an instrument to evaluate the financial comparability of various priorities to pursue (public value, social, environmental, etc.) (Esposito and Ricci in *Public Money Manage* 35(3):227–231, 2015).

**Keywords** Non-financial performance · Hierarchy · Public value

### 7.1 Introduction

The role of the public administration in Italy, as in other European countries, has changed profoundly over time, with an evolution of its roles and functions that has resulted in a significant increase in the areas that fall within its realm of action. This has led to the emergence of critical issues, namely (Hughes 2003):

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P. Ricci (✉) · R. Civitillo  
Department of Law, Economics, Management and Quantitative Methods-DEMM,  
Sannio University, Via Delle Puglie, 82, 82100 Benevento (BN), Italy  
e-mail: ricci@unisannio.it

R. Civitillo  
e-mail: civitillo@unisannio.it

- the excessive use of resources has had a negative and widespread impact;
- the excessive reach of public intervention, with involvement in areas that are too far from its traditional role;
- high levels of inefficiency in the quality of services offered.

New Public Management and the other theoretical movements which have revolutionized Italian public administration since the 1980s (Public Governance, Public Performance Management and New Public Governance) have led to a paradigm shift (Barzelay 1992; Behn 2001), which by relying on neoclassic economic theories, from Public Choice Theory (Stigler 1971) and Principal Agent Theory, seek to reach the highest levels of efficiency, effectiveness, and productivity within the public sector through the introduction of an entrepreneurial culture, methods, and techniques (Hood 1991).

In fact, the traditional conceptual pattern according to which the respect of norms is sufficient to automatically reach an optimal balance in government action has become obsolete in light of the administrative approach, which instead posits effectiveness (the ability to satisfy community needs), efficiency (the ability to reach objectives, using the least amount of resources), and cost-effectiveness (the ability to maintain the correct balance between the resources used and the benefits obtained for the community in the long term) as the basis of a properly functioning public organization.

The need to measure performance has inspired key reforms in the public sector, at a national and international level (OECD 2005; Pollitt and Bouckaert 2004): The level of performance of government action represents a fundamental element for the evaluation of the correct and rational use of public funds and thus to ensure the adequate level of transparency, efficiency, and effectiveness of the choices made for the good of the community (Hood 1991; Pollitt and Bouckaert 2004).

In this context, the problem of limited resources available and the financial instability of the new organizational and management models of the public administration have made it so that the interest in financial performance has become so important that a disproportionate amount of attention is given to the methodologies and instruments for its measurement.

For the purposes of this work, 'financial performance' is defined as the achievement of economic and financial objectives, measured according to the methodology and techniques of 'financial accounting theory.' The main accounting practices used by public sector organizations are (Jones and Pendlebury 2000):

- budgetary accounting;
- cash accounting;
- accrual accounting;
- commitment accounting;
- fund accounting.

The results of these accounting practices are indicators used to determine financial performance, for example, a school's budget for a year, the average cost of a doctor's visit, and the cost of obtaining court judgment in a legal dispute.

Financial performance has therefore gained more and more relevance in policy and in legislative reforms—creating a sort of ‘hierarchy’—and prevailing over other dimensions.

By ‘hierarchy,’ we mean a system in which things are arranged according to different levels of importance, from highest to lowest (Cambridge Dictionary 2016). With reference to public administration,

hierarchy establishes the democratic current that runs throughout contemporary systems of public governance and administration, linking the various actors, organizations, and institutions that make up the core features of democratic systems of governance (Bovens et al. 2014, p. 405).

In this respect, however, some authors also believe that

non-financial inputs, outputs and outcomes of government services are best thought of as being hierarchical (Jones and Pendlebury 2010, p. 21).

The causes of ‘hierarchization’ can be summarized in the following way:

- (a) a push toward the simplification of checks and measurements in order to achieve the objectives of each public administration;
- (b) the absence of a systemic view of every single public organization. In Italy, for example, this view was introduced more clearly only recently through the adoption of accounting harmonization (art. 9 Legislative Decree n. 118/2011);
- (c) the prevailing financial culture in the EU Stability and Growth Pact (SGP).

In light of this, the present work, which is based on an intuitive–deductive approach, has the following objectives:

- 1) highlight how it is possible to identify a hierarchy among the elements of performance, with an over-reliance on financial performance;
- 2) demonstrate how the predominance of financial performance could lead to negative consequences in the evaluation (and management) of the public administration, undermining the necessary systemic and collective vision; when measuring the performance of public sector organizations, we should distinguish between distinct elements of performance: inputs, outputs, and outcomes. In light of this, it would be useful to use not only financial parameters but also non-financial measures and qualitative judgements (Jones and Pendlebury 2010);
- 3) underline the role of financial performance as a means to evaluate various priorities (public value, social, environmental, etc.) and not as an end goal of public administration (Adams et al. 2014; Esposito et al. 2015).

## 7.2 Measuring Performance

Defining performance is extremely complex (Ridley and Simon 1943; Lapsley and Mitchell 1996; Atkinson et al. 1997; Streib and Poister 1999; Kloot and Martin 2000; Halachmi 2005; Monteduro and Hinna 2007). While, in general terms, it can

be defined as the ability to achieve a result (Bovaird 1996), as in a response to a need (Liguori et al. 2012), it can also be understood in very different terms based on the theoretical approach and the chosen ends. For this work, it is helpful to define performance as the evaluation, based on the criteria of efficiency, effectiveness, or a social nature, of an organization's ability to meet the expectations of those who are part of it. Performance is about intentional behavior, which can be individual or organizational (Van Dooren et al. 2010) and which implies a certain standard for quality:

(a) the quality of the actions being performed,

or

(b) the quality of what has been achieved because of those actions.

Performance has to do with important and specific aspects of governing such as the provision of services, in definitive form, free at the point of delivery to specific individuals or groups of individuals (Jones and Pendlebury 2010).

From the definitions above, fundamental characteristics emerge very clearly (Guthrie and English 1997; Van Dooren et al. 2010):

- the concept of subjectivity,
- a multidimensionality within the concept of performance,
- the quality of actions and results achieved.

The subjectivity has to do with the fact that every level of performance depends largely on a combination of expected results, actors involved, policies, programs, and services offered, which are tied to previously determined needs (De Bruijn 2007; Thomas 2007). Their measurement and their evaluation are strongly conditioned by information needs and the characteristics of the subject or subjects involved. The logical basis for the measurement of performance consists in the proper identification of key factors and the subsequent creation of parameters using these key factors (Kloot and Martin 2000). Subjective expectations are characterized by a certain degree of ambiguity that could make them more or less undetermined, clear, and constant in time. In this sense, another point to take into consideration is possible behavior changes caused by the measurement (Hatry 2002; Thiel and Van Leeuw 2002; Van Dooren 2006; De Bruijn 2007). This represents an additional element of complexity within the concept of performance that goes alongside the subjectivity mentioned above.

The multidimensionality of performance in the public sector (Moore 1995; Guthrie and English 1997; Bouckaert and Halligan 2008) refers to the need for a systemic methodology through the integration of economic variables with technical indicators (Epstein and Birchard 2000), strategic and operative needs (Kaplan and Norton 2001), as well as internal and external perspectives. More specifically, the multidimensionality can be defined based on its content (width) as well as its application in time (depth) (Bouckaert and Halligan 2008).

According to the ‘quality’ characteristic, we can distinguish two perspectives (Van Dooren et al. 2010): firstly, the tasks being carried out by the performing agent. The municipal waste service, a vaccination campaign, a surgical procedure, and a university lecture are all (very broad) examples of performance by government actors. In this sense, performance is conceptualized as ‘competence’ or ‘capacity.’ However, each performance may have a high or low level of quality; secondly, because ‘competence’ and ‘quality outputs’ are directly proportional (Dubnick 2005), when performance is about the quality of the achievements and not as much about the quality of the actions, performance equals results (Van Dooren et al. 2010).

Notwithstanding the critical elements illustrated above, it is necessary to underline how the measurement of performance, which consists in the process of determining and assigning to it a quantitative value, represents the prerequisite for any type of evaluation or judgment that has to do with the services rendered by the public administration. This seemingly simplistic consideration highlights an obvious difficulty in the measuring procedures used for evaluating public organizations, which in turn are characterized by significant qualitative elements due the social nature of their aims that are, by their very nature, difficult to measure. In fact, because of the multitude of interests involved in the correct functioning of a given public administration, the evaluation of the results achieved is so crucial that it should involve every actor that is potentially in contact with it. To ensure accountability (De Bruijn 2007), the systems used to measure and evaluate performance must be conceptually, theoretically, and empirically coherent (Del Bene 2014). From this stems, the use of performance logic and related measuring tools for public organizations—a logic which should avoid facing the risk of measuring too much or measuring only what is ‘measurable.’ For this reason, a number of theoretical approaches for measuring public organization performance have emerged since the 1990s. These approaches provide their own vision of evaluation of performance, but aside from their relative specificity, they all have the same objective: to introduce performance management systems which go beyond the traditional system of control based on compliance or so-called conformance. Conformance is the sterile adherence to rules and procedures without an evaluation approach based on results. In sum, there has been a theoretical shift from a ‘culture of mere adherence’ to a ‘culture of performance’ (Monteduro and Hinna 2007; Borgonovi 2009). Therefore, we should distinguish between ‘adoption’ and ‘implementation’ of performance measurement systems (De Lancer and Holzer 2001). In this perspective, it is useful to point out that system dynamics can be used to enrich performance management in public sector organizations, as shown by some recent studies (Bianchi and Rivenbark 2014).

Even considering the subjective and multidimensional elements discussed above, what follows is that the process of evaluation implies the measurement of value generated. In the private sector, this is based on market mechanisms, whereas in the public sector, the rules are completely different (Jones and Pendlebury 2000; Borgonovi 2001).

It suffices to recall that all public administrations have the aim of furthering the common good and that in Italy, this is intimately linked to the principles of proper functioning contained in Article 97 of the Italian Constitution. This means that all activities must be inspired by the notions of efficiency, effectiveness, and economy— notions that fall clearly within the administrative doctrine and can be interpreted as the basis of legality in public administration (Borgonovi 2001). In other terms, legalitmplicitly connected to mere adherence to the rules but, rather it is the consequence of the concrete actions which respect the above-mentioned criteria of efficiency, effectiveness, and economy and thus the principle ‘well-functioning’ public administration contained in Article 97 of the constitution.

The absence of measurement and evaluation systems for the performance of the public administration has a negative impact on the processes for reform, which are made weaker as a result. It is for this reason that, for some time now, reforms have been put in place in several European countries to counter this absence. Examples include the UK, Germany (Neues Steuerungsmodell), and France (LOLF—Loi Organique relative aux Lois de Finances).

In this perspective:

Performance measures contain information that can be used not only to evaluate, but also to learn. Indeed, learning is more than evaluation. The objective of evaluation is to determine what is working and what isn’t. The objective of learning is to determine why (Behn 2003, p. 592).

Along these lines, Legislative Decree n. 150/2009 represents an attempt (although not a timely one compared to other countries) to shed light on the need for performance evaluation in the public sector, focusing on issues tied to the reliability of performance measurement (Del Bene 2014).

### **7.3 The Italian Approach to the Culture of Performance: Legislative Decrees N. 286/1999 and N. 150/2009**

The introduction of performance measurement processes in the Italian public sector may represent one of the most important attempts to move beyond the traditional ‘adherence approach’ toward a true ‘culture of performance’ focused on results (Dunleavy and Hood 1994; Pollitt and Bouckaert 2004; Guthrie et al. 2005). One of the first comprehensive laws in Italy on the topic of performance measurement can be traced to Legislative Decree n. 286/1999 which sets up a system of evaluation and internal checks within the public administration with the aim of monitoring several aspects of the public management through a strategic control body, to which it assigned the task of evaluating the adequacy of the choices made in the implementation of plans, programs, and other policy instruments, in terms of the coherence between results obtained and initial objectives. This sort of strategic control process in public organizations can be interpreted as a level between the typical outcome of public action and the relationship between inputs and outputs

that characterize the managerial approach. In fact, the process of control is projected into a dimension that is not a purely normative or legal one, but one which checks the total impact of the actions of the public administration aimed at implementing the public policies for the good of the community.

The system of internal checks included in Legislative Decree n. 286/1999 has a rather fragmented structure and is especially lacking an adequate systemic approach. The main objectives of the law can be summarized as follows:

- to guarantee legitimacy, accuracy, and regularity of the administrative and accounting spheres;
- the optimization of the relationship between costs and results, including through feedback mechanisms;
- the evaluation of the performance and organizational abilities of management personnel;
- the verification of the adequacy of the strategic and policy choices and the adequate balance between results and objectives.

However, the implementation of the innovative aspects of Legislative Decree n. 286/1999 allowed for various critical points to emerge, especially due to a bureaucratic approach toward evaluation and control. The model, in fact, is based on a one-dimensional analysis of performance, with a top-down logic and evaluations of employees carried out by management. Various difficulties emerged with regard to the correct identification of parameters to measure results, with dire consequences on the effectiveness of the entire norm. Furthermore, in the Legislative Decree, even though a great deal of attention is given to the promotion of internal accountability (among political and administrative organs), very little consideration is given of outside accountability—with little transparency in accounting for results obtained to the citizens and community (Ricci 2016).

It is precisely because of the shortcomings listed above that Italian legislators decided to modify Legislative Decree n. 289/1999 several times and reached the conclusion that the problem with the law (and with Legislative Decree n. 29/1993 and the others written in the 1990s) was not its content but its effective implementation. For this reason, with the Legislative Decree n. 150 of October 27, 2009 ('Brunetta Decree'), Italian legislators tried to reorganize the norms in the area of the optimization of productivity, efficiency, and transparency of the public administration. In order to overcome the critical points of the previous laws, particularly the implementation issues of Legislative Decree n. 286/1999, the Brunetta Decree tried to find a solution to the cultural problem rather than to the technical one. In this sense, in addition to performance, to which particular attention is given in Legislative Decree n. 150/2009, other concepts are taken into consideration which are by no means new to the Italian legislative landscape, such as efficiency, effectiveness, economy, productivity, and transparency. However, the law introduced some significant conceptual innovations related to the general legal approach and the instruments that should be used. Despite these significant innovations, for the purposes of this work, the most important innovation of the Brunetta Decree is

the introduction of the necessary and fundamental systemic vision of the entire picture which was largely absent in the prior regulatory approaches. In this sense, the model of management set forth in the law is inspired by the objective of guaranteeing a model aimed toward results and a managerial approach to public administration, as highlighted in the leading international literature (OECD 1997, 2004, 2005; Bouckaert and Halligan 2008). The general goal of the norm was to improve the results of organizations and more specifically to:

- improve the quality of the services offered by public administrations;
- promote professional growth and development within public organizations.

These objectives are reached through an organic approach in which the single elements—such as the process of defining goals, deciding what resources to allocate, the creation of mechanisms and systems for rewarding achievement based on results achieved, and internal and external accounting practices—are organized in a systemic way and not as separate elements without any interdependent connection (Otley 1999). The systemic and organized approach adopted in Legislative Decree n. 150/2009 ensures that the single objectives of one phase do not outweigh the general mission of the entire organization (Riccaboni 1993). To this end, another important element that was introduced by the Brunetta Decree is the involvement of the entire organizational structure and the assignment of specific responsibilities to various subjects involved in the so-called ‘management cycle of performance.’ This concept originates from the ‘management plan for performance’ a three-year planning document in which objectives, indicators, and targets at the basis of measurement, evaluation, and accounting of performance are clearly stated. Despite the key role that the concept of performance plays, the norm does not focus on its measurement but rather gives greater weight to the definition of outputs to account for and to use as a basis for its evaluation (Borgonovi and Valotti 2009). Still, it is necessary to highlight the difficulty of measuring performance in the context of public administration. It is, in fact, difficult (and in some cases impossible) to identify quantitative criteria to evaluate essentially qualitative results. Furthermore, even when these criteria are predictable or identifiable, how they are characterized can have an impact on their ultimate relevance and effectiveness for interpretive uses. From this perspective, it is helpful to distinguish between a quantitative dimension of performance, which is characterized by indicators that allow for the measurement of specific management aspects, and a qualitative dimension which, by nature, allows for a non-quantitative evaluation of the actions of the organization.

In this sense, it is important to highlight that despite the ambitious goals of the reform, it fell short in various aspects and led to mixed results (CIVIT 2011, 2012). Several studies have pointed to limitations, particularly pertaining to performance, transparency, and quality (ANAC 2013).

In a study from 2012 (Galli 2012), the concepts of relevance and measurement of performance contained in the Brunetta reform were compared to those in place in 7 countries: UK, Canada, Australia, USA, France, Germany, and Finland. The



study found that none of the countries examined had accounting mechanisms in place that would meet the requirements of Legislative Decree n. 150/2009. This shows that the requirements of the reform were too ambitious, even when applied to countries in which performance management has been introduced for quite some time (Galli and Turrini 2013; Bigoni and Deidda Gagliardo 2013; Cuganesan et al. 2014).

Finally, the Brunetta reform represents a positive legislative innovation from a cultural point of view, but its impact on the Italian public administration has been quite limited. This has been the case particularly because of the financial limitations of the reform, which in turn have led to only a partial application of its provisions (Ricci and Serluca 2013).

#### **7.4 The Performance Hierarchy: Does the Financial Dimension Have to be at the Top?**

As mentioned previously, the last two decades have been characterized by various attempts by Italian legislators to develop models which answered to different theories and needs, each characterized by their own peculiarities. We can identify two different phases in this legislative process. The reforms of the 1990s, culminating in Legislative Decree n. 286/1999, were characterized by a push toward ‘tasks,’ typical of the above-mentioned approach based on abiding to norms and ‘accountability bureaucracy’ which focused on creating monitoring bodies and inspection-like checks, aimed toward ensuring that administrative acts fell in line with the applicable legal norms. Later, the need to measure performance focused exclusively on outputs (on the goods and services rendered), and it was carried out only by external bodies, laid out in the law itself (Monteduro 2010).

As shown previously, the evolution of the role of the public administration at the international and national level set the basis for a move past the traditional approach, and in favor of various attempts to introduce a true culture of performance, one focused on results rather than on mere adherence to norms. Legislative Decree n. 150/2009, which was characterized by the shift from New Public Management to Public Governance, is the norm which represents this transition. Here, the attempts at creating a management approach to public administration that were started in the 1990s are accompanied by a different approach, a multidimensional one that aims at external accountability in order to guarantee and favor transparent knowledge and understanding of the value created by public bodies (Moore 1995; Guthrie and English 1997; Kelly et al. 2002; Stoker 2006; Beck Jørgensen and Bozeman 2007; Bozeman 2007; O’Flynn 2007) and improving the satisfaction of user needs and use of resources (Holzer and Yang 2004). In this way, the importance of what is being measured (Berman 2002; Lemieux-Charles et al. 2003; Fryer et al. 2009; Van Dooren 2006) is connected with the outcomes of the government actions and the recipients of information are no longer only external

bodies but stakeholders (especially citizens) who become more involved in the entire management model (Moore 1995).

In this sense, many studies have shown that well-managed performance measurement systems are critical for accountability in public sector organizations (Rivenbark 2007; Aguinis et al. 2011; Bianchi and Rivenbark 2014).

However, despite the above-mentioned multidimensionality which characterized the latest norms in Italy, all legislative reforms have had a common denominator: the prevalence of the financial dimension of performance that emphasizes accounting-based measurement and thus is able to capture the ‘economic value’ generated by the public administration but not the public value of its actions, which should be the predominant characteristic and purpose of public administration (Cuganesan et al. 2014; Bracci et al. 2014). In Italy, but also in other countries, this prevalence of the quantitative–financial dimension has progressively become a predominance and has begun to influence, in an increasingly significant way, all the other dimensions as well, so much so that it has led to the hierarchization of different dimensions of performance, with the financial dimension at the very top. In fact, the rationale for this approach is nothing new (Drucker 1954, 1976) and reflects the view of several public sector reformers (Holmblad Brunsson 2002; Modell 2004).

In this sense, we can therefore refer to this as a ‘hierarchization of performance.’

Financial measurement systems are a general characteristic of all organizations and are presented differently based on different classifications and theories. For public organizations, especially in Italy, in the past, the topic of accounting-based ‘financial balance’ was often second to the concept of public finality and so unexpected, because it was often possible to incur public debt. Later, instead, this phenomenon became more strained, following a reduction of the resources available because of the limits imposed by macroeconomic relations. Therefore, it appears necessary to find a balance between achieving objectives in the interest of the public and the financial measurement of the same.

On the other hand, it is true that ignoring financial parameters and cost has many negative consequences, also because the cost of services is really important for performance measurement. This means that inputs, outputs, and outcomes must be judged together to lead to useful performance analysis:

In the short term, accounting might judge successful outputs, with unsuccessful outcomes but at low cost, favorably (number and classification of examination passes increase, but approval level fall and budgets are lowest compared with comparable services), but in the medium term might worry about the implications for future budgets if the low approval levels lead to radical changes (Jones and Pendlebury 2010, p. 21).

Therefore, while attention to these accounting-based elements is necessary, it must be aimed at identifying areas of waste, illicit activity, and introducing services and processes to award merit and professionalism. The achievement of these objectives can be measured through adequate and specific indicators of financial performance

(e.g., the reduction of teaching personnel salaries in schools and universities, reduction of treatments offered in hospitals or the costs of managing public transportation, etc.). These types of financial and economic indicators should guide the public administration, leading to an achievement of the objectives set forth in the planning process, but they raise the following questions (Borgonovi 2009): Is a balanced budget always in the interest of citizens? How can we judge the achievement of a balanced budget if this is due to the reduction in the quantity or quality of services offered?

These questions highlight the need for a systemic approach to performance measurement and adequate evaluation processes.

In support of this concept, Jones and Pendlebury (2010, p. 21), in their book ‘Public Sector Accounting,’ state:

‘In definitive governments, in which the services provided free at the point of delivery are financed by taxation, performance is assessed using financial and non-financial measures and qualitative judgements. In performance measurement, it is useful to think of the following distinct elements of performance:

- inputs, being resources consumed by the governments, measured primarily using costs but also non-financial measures—commonly, the number of employees
- outputs, being the services provided, measured primarily using non-financial measures
- outcomes, also being the services provided, but primarily using unmeasured, qualitative judgements, though when the judgements of outcomes are systematically gathered from service recipients, typically based on interviews or questionnaires, they can be measured and statistics of satisfaction produced.

Non-financial inputs, outputs and outcomes of government services are best thought of as being hierarchical. [...]. The lowest levels in the hierarchy, while they can be reliably measured, are furthest away from what the government services are ultimately trying to achieve; at the highest level they are what the services are ultimately trying to achieve, but cannot be measured.

None of the levels in the hierarchy of outputs and outcomes is the natural responsibility of accounting. In the provision of government services (as in non-profits), outputs and outcomes are matter for others—in this case, service professionals and politicians.’

From what we have just highlighted, accounting-based performance measurements are not very useful for our purposes: These are useful just for partial assessments, and they should be completed by qualitative judgments and, above all, with non-financial measurements.

Furthermore, in the public sector, the systematic approach highlighted above has an even greater importance: In this case, the evaluation of performance of a single unit must be considered in its totality (or again, in a systemic way) and it cannot disregard the results of other existing organizations. In other terms, if the improvement of the economic–financial balance of an administration is not in line with the similar results obtained by other organizations, the equilibrium is tarnished in the broader system of which it is a part, aside from the one tightly linked to the various entities taken into consideration individually.

## 7.5 For a Better Understanding: Five Short Examples

To better understand what we mean by ‘hierarchization’ of performance, and how it permeates the regulatory landscape, management models, and evaluation of the Italian public sector organizations, we offer some examples involving four relevant fields, concerning the evaluation of performance: municipal bankruptcy legislation, healthcare system, public transportation services, and international migration facilities. They are examples that try to clarify the potential dynamics that exist between financial and non-financial performance.

The Italian legal system (as in other countries) recognizes the possibility that municipalities and other local entities may encounter moments of financial crisis, of various levels of gravity. Aside from the procedures and instruments contemplated, for the purposes of this work, it is sufficient to highlight the parameters and criteria to determine the degree to which and whether there is a financial crisis: It is based on quantitative indicators that reveal exclusively financial results. On the other hand, no consideration is given to the evaluation of other aspects of performance such as the quality or the variety and abundance of services offered to citizens (Peck 2014).

A further example is the provision of healthcare services in Italy. In the so-called Health Pact 2009/2012, it is clear that the aim of improving the functioning of Italian national health system has been interpreted exclusively according to a financial perspective, with no consideration of the effective protection of health (Anderson and Frogner 2008). As Borgonovi and Compagni argued (2013, p. S35):

Attention appears to be focused on how to collect sufficient resources to sustain health care systems.

In fact, it is a financial planning document that excludes any assessment of the quality of health services provided to citizens. To understand this, it is sufficient to note that in the text of the provision, the word ‘patient’ is present only once, while the words ‘disease,’ ‘human person,’ ‘human resource,’ and ‘responsibility’ never appear. Further confirmation is given by the structure of the legislative provision. The basic elements include:

- the estimated budget of expenditure of the National and Regional Health Service;
- a system of indicators covering the average costs and standard costs of the services provided;
- the provision of a financial recovery plan (in case of budgetary imbalances).

The introduction of performance management tools is the purpose of the recent reforms that have also affected the system of Italian universities. In this direction, the new adoption of the accrual basis accounting is aimed at guaranteeing the highest levels of efficiency and effectiveness (Romano and Cirillo 2015). However, even in this case, to achieve these management objectives, attention is focused totally on financial elements (e.g., cash flow, economic balance, and standard

costs). In contrast, no attention is given to non-financial aspects such as public value or, especially, the third mission, which is:

a global trend where universities are collaborating with government, industry and civil society to advance the sustainable transformation of a specific geographical area or societal sub-system (Trencher et al. 2014, p. 151).

The end result, therefore, is represented again by the dominance of the financial dimension. It is given more importance than the other dimensions in the evaluation of the overall performance of the Italian universities.

The same occurs for the evaluation of the public transportation system. In this case as well, the aim sought by recent reforms is to guarantee an improvement of the economic conditions of the companies which manage the services—an objective which is reached by reducing the frequency or number of buses in circulation. It is evident, however, how the possible reduction of costs of the service can create various negative externalities, such as the worsening of the environmental conditions in the city (higher levels of pollution and related ailments). In this sense:

Urban transportation system is a complex system with multiple variables and nonlinear feedback loops and influenced by transportation, social, economical, and environmental factors (Wang et al. 2008, p. 83).

This means that financial improvement results in a worsening of the financial conditions of the healthcare system and therefore of the financial balance of the system as a whole.

The recent international flows of migrants and refugees, from Middle East and Africa to European countries, can also be viewed from the same perspective. The superficial management of the services and structures dedicated to controlling the influx of immigrants, which in turn were the result of the need to contain spending, could have social economic repercussions (Campesi 2011; Marchetti 2014), with an impact on the health of the migrants or on the crime rates in the affected areas, determining an increase in the costs the national healthcare system for the care of the migrants and for the police force needed to guarantee the safety of citizens.

## 7.6 Preliminary Conclusions

The considerations made thus far set up an evident challenge, which is also the solution to the critical points just discussed: the search for models that lead to effective systemic balance, both financial and non-financial nature.

This consideration requires a complete rethinking of the role of financial performance indicators in public sector organizations. In fact, the phenomenon of ‘hierarchization’ of performance of the Italian public administration illustrated above determined the inability to construct an effective multidimensional model for performance measurement. A multidimensional approach, in fact, is the only type able to lead to an efficient and incisive achievement of the integrated and systemic

objectives, precisely because it is only with the recognition that there are many dimensions to performance that a predominance of one dimension (and therefore limited) over the others can be avoided. It is especially problematic when it is the accounting-based financial dimension to prevail over the other dimensions.

In this perspective, we can say that the one-dimensionality of the ‘hierarchization’ of performance can lead organizational malfunctions, which is damaging to an unwritten but crucial principle tied to the systemic vision highlighted above: the notion of ‘loyal collaboration’ between institutions and public bodies, which is fundamental in order to achieve common ends and objectives of a system. The notion of loyal collaboration has always found limited application in the entire Italian public sector to the point of making it complex, if not impossible, to develop clear and consolidated relationships between institutions. It should be reconsidered and fully included among the essential principles for the positive functioning of the public administration, at the same level of efficiency, effectiveness, and economy. To remain in the administrative perspective and to better understand the weight of the relationships, we could ask ourselves: What would happen to any group if the companies that are part of it were not motivated by the unwritten notion of loyal collaboration? They would simply fail or they would be destined to a rapid decline, and their very reason for aggregating in the first place would no longer exist. This is precisely the risk that public entities and public institutions expose themselves to when they are reluctant or incapable of respecting the aforementioned principle, which is fundamental to ensure public value and for the construction of common good, within individual public organizations and within the whole public administration of reference.

In light of this, we can therefore affirm that the lack of loyal collaboration has amplified the negative effects produced by the phenomenon of ‘hierarchization’ of performance and has ultimately resulted in the creation of a vicious circle.

The legal reforms that came about in following years, albeit with different motivations and very different aims, never guaranteed a true, harmonious, and balanced approach to achieve their stated objectives and favored emphasis on financial measurement above all others.

The Brunetta reform, as mentioned above, is particularly useful from a cultural and formative perspective because it incorporates a series of values that, for the first time, are not integrated in a merely abstract list of the single elements. However, it is important to note that the norm does present some particularly significant critical points. The crucial relationship between policy and management (Bianchi and Rivenbark 2014) is not well addressed, especially in terms of the definition and planning of objectives that are compatible with the previous phases of strategic planning.

In any case, the Brunetta reform should have implicitly led to a requalification or an improvement of the relationship between policy and management. It is precisely this relationship between policy and management that should have benefited from the reform by capitalizing on what are considered its key elements (Ricci and Serluca 2013):

- reflection on the identity and mission of a given institution;
- formal procedures for decision making;
- the definition of strategic objectives;
- the use of performance management tree.

Furthermore, it does not address the topics of co-value, co-production, and co-creation of public value which, as mentioned above, is fundamental to public administration (Benington 2011). On the other hand, focusing on the concept of public value as the ultimate aim of the actions of public organizations, rather than on economic value, limits the process of ‘hierarchization’ of performance.

What follows is that measurements based purely on financial performance cannot capture the many innovations related to production, organization and even culture that have taken place in recent years in the public sector. Within the complex relationship between institutions and citizens, the potential qualitative contribution of active engagement by civic stakeholders and by the direct recipients of the services offered by the public administration is more important than ever, although it is not always easy to highlight in terms of public value generated.

On this topic:

‘Performance measurement enables officials to hold organizations accountable and to introduce consequences for performance. It helps citizens and customers judge the value that government creates for them. And it provides managers with the data they need to improve performance’ (Osborne and Plastrik 2000, p. 247).

For example, consider the responsible use of water or the act of recycling diligently. Paradoxically, this also holds true in the measurement of stakeholder engagement (typically non-financial) as well, which the public sector needs more than ever to understand the implementation of its action plans and to verify the leadership capabilities of its management team and political actors. Naturally, this requires institutions that are more open, dynamic, and able to truly interact with stakeholders and citizens who are willing to actively participate in public life. These represent the key characteristics or requirements of the individuals involved.

In conclusion, we can affirm that performance is of crucial importance if it is considered a tool and not an end result. In this sense, performance can be correctly defined as a measure of financial compatibility of one or more priorities (public value, social, environmental, etc.). Conversely, when performance is seen as the aim of a public administration, there is the risk that it may not guarantee balanced outcomes and could even result in the destruction of public value (Esposito and Ricci 2015).

It is indisputable that financial performance is a clear indicator of managerial balance, considering the activities typically carried out by the public administration and its ultimate ends. However, it is also obvious that this and all other evaluations based on the same ‘criteria’ are very limiting because they presuppose a set up that does not give enough consideration to the multidimensionality previously discussed. Furthermore, and particularly for our purposes, this type of financial one-dimensionality is in conflict with the remaining dimensions which are

explicative of performance. This conceptual understanding can only be rejected: As was mentioned previously, it is necessary to adopt a systemic logic of performance in the public administration. Every form of ‘compartmentalization’ leads to evident ideological conflicts which appear to be paradoxical and in conflict with a complete and global evaluation of management of public organizations. The examples shown above, in this sense, allow us to underline the need for deep and complete reflections on the topic of performance in the public administration, which cannot be structured based on the compartmentalized, exclusionary, and oppressive logics outlined above. Conversely, systemic approaches which consider the coexistence of many dimensions can reconcile the obvious and physiological specificities within every dimension, allowing for the optimization of the various levels of performance and the achievement of an overall balance within the public administration (Guthrie and English 1997; Bouckaert and Halligan 2008).

The continuous legal reforms of recent years, especially in Italy, have progressively accentuated the ‘hierarchization’ of performance through interventions aiming at rationing (rather than rationalizing) the financial resources of public organizations. Considering the extremely limited results achieved in terms of increasing efficiency and effectiveness, the improvement of the financial dimension of performance—still necessary in the systemic view outlined above—could be pursued through a different approach: An improvement in the ability to forecast could, in fact, represent one of the possible solutions to guarantee a true optimization without the disadvantages that are implicit to the one-dimensional solutions illustrated thus far.

As a final reflection on public sector developments in Italy, we can affirm that the country has been affected by an excessive reliance on legislative reforms. Performance management reforms have been imposed without periodically evaluating the results achieved, and rules have been changed often without leading to real institutional change. It is necessary to identify the causes of problems within a given community, country, and public administration, rather than to merely measure their financial or quantitative impact. In this sense, Behn (2003, p. 595):

The real, ultimate outcome that citizens seek from our public schools is children who grow up to become productive employees and responsible citizens. But using a measure of employee productivity and citizen responsibility to motivate performance creates a number of problems. First, it is very difficult to develop a widely acceptable measure of employee productivity (do we simply use wage levels?), let alone citizen responsibility (do we use voting participation?). Second, schools and teachers are not the only contributors to a future adult’s productivity and responsibility. And third, the lag between when the schools and teachers do their work and when these outcomes can be measured is not just months or years, but decades.

Western economies are now well aware of the political and managerial problems facing their public institutions, although with some delay, they have found ways to resolve these problems by taking into consideration multiple factors and not only financial ones (Ricci and Serluca 2013).



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