

Edited by Massimo Sargiacomo

# Financial Distress in Italian Public Administrations

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# Preface

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Most research on public management underlined the necessity of the total demise of the welfare state in favour of a new efficient and effective model for the organization of the society. This kind of research emphasizes the need of change and transformation and the need to look to the private sector to gather inspiration. This book takes a more realistic approach, focusing on the complexities and difficulties of the change process, showing where the real cost-cutting took place and how public sector organizations try to resist the financial distress. The volume examines core service areas of the Italian public sector, such as higher education, public transport, healthcare, water supplies together with local governments. This refereed book clearly demonstrates that there was a real reduction of resources in those core service areas, causing financial distress situations. Gathering up-to-date economic and financial data, this book shows that the welfare state in Italy did not disappear but is still alive although it is not in good conditions. It shows how the resistance to change worsened the situation and which are the recovery actions that were taken in order to avoid the financial distress. This evidence is important because it shows a remarkable resilience of the Italian state and its core institutions despite their serious financial and economic problems.

In chapter 1 Borroni and Maggi analyse the financial distress of the Italian State using a framework based on five main factor groups: economic environment, institutional system, politics and political behaviour, efficiency and functioning of public administrations, and social environment. The conclusion is that Italy is a very weak country when dealing with ordinary situations, but it has great capacities when called to respond to exceptional circumstances, urgency and danger.

In chapter 2 Capalbo, Grossi, Ianni and Sargiacomo provide a general analysis of the Italian special legislation on Local Governments' financial distress, focusing on the "attitude" of the Central Government towards financially troubled entities. They note a changing attitude of Central Government towards these entities. Currently the attitude of Central Government is to give Italian Local Governments the chance to independently plan and manage the turnaround process through a specific multiyear procedure out of the official status of financially destabilized entity.

In chapter 3 Gitto, Venditti and Antonucci, using the Foucault's theory of "governmental rationality" show, through a case study, how the causes of the financial distress are simultaneously attributable mainly to the cuts in central transfers and to the implementation of fiscal federalism. They conclude that the federalism was not balanced by municipalities' real and autonomous taxing capacity and efficient culture in tax collection.

In chapter 4 Ianni, D'Andreamatteo, Sargiacomo and Lega using the Governmentality framework analyse the Financial Distress in the Italian National Healthcare System (INHS) in the light of the current re-centralization trend set by the Italian Government after a period of decentralization. They conclude that re-centralization may be possible and "in tune with" a regional federalist system, but on the condition that it is limited to guarantee, basically as steering role, that the governmental healthcare objective may be reached, and thereby making the overall INHS more sustainable for the future.

In chapter 5 D'Andreamatteo, Ianni and Sargiacomo show, through a detailed case study, how the regional inertia in improving the financial sustainability of healthcare organizations prompted the central government intervention. They show how Abruzzi almost succeeded in the process of recovery and requalification of its healthcare system by using strategies of retrenchment and reorganization. The Abruzzi healthcare system case highlight the importance of changing the set of leadership capabilities to lead the turnaround situation and to improve the competencies of the regional health department's staff.

In chapter 6 Della Porta, Consorti, Sargiacomo and Venditti analyse the financial situation of Italian Public Universities after the introduction of reforms regarding not only the introduction of more rational funding allocation systems but also the possibility of closing universities that are persistently in a financial distress state. By combining two indicators - one regarding the future financial public transfers and one concerning the quality of research in the Italian universities, calculated on the basis of up-to-date AN-VUR and MIUR data -, they show that the new funding rules will favour the polarization of the Italian university system but in the future. The speed of change, in fact, is very low. Considering the huge reduction of resources set by central government, the old logic of resource allocation, designed for reasons of social cohesion, while not encouraging continuous improvement, is still quite strong in the present with the result of exposing indiscriminately both high and low performing Italian universities at risk of insolvency.

In chapter 7 Battista, Verna, Lucianetti and Sargiacomo investigate the interrelationship between personnel burn out and financial distress in Italian public universities after the introduction of reforms. These reforms increased the pressure to pursue financial efficiency and research quality, affecting in turn, the burn out of academicians and employee staff. Using a sample of 351 respondents from 54 Italian public universities, the paper shows that when high levels of financial efficiency are combined with high levels of research quality, the level of individual burn out increases. Moreover, results suggest that the implementation of the "right" PMS, in this context characterized by an increasing uncertainty, may mitigate the effect of burn out on people working in academia.

In chapter 8 Maraghini, Riccaboni and Trovarelli highlight the need and the opportunity to qualify the turnaround process in academia too, via the adoption of a strategic approach and a wider perspective capable of accounting for the several aspects of university management and the heterogeneous nature of the phenomenon. The University of Siena's turnaround case highlights the importance of a series of points, i.e. a step-by-step process, a strategic approach, the awareness of process multidimensionality, the careful analysis of cause-effect relationships, the 'material' and 'intangible' dimension (culture), the monitoring, the involvement and participation.

In chapter 9 Della Porta, D'Amico and Gitto analyse the financial situation of the Italian Local Public Transport sector. Some recent cases of bankruptcy in this sector testify unequivocally the existence of areas of suffering, making it urgent to analyse the financial conditions of the Italian local public transport companies to verify their ability to meet their short and long term financial commitments. They show how the financial difficulties of public transport companies are the effect of the contrast in place between the central government - that, in times of crisis, imposed a performance funding logic -, and the local governments, which resist in adopting such logic defending the sociality of the service. Using some empirical evidences, the chapter shows that such resistance reached a critical phase that is dangerous for the whole Italian local public transport sector.

In chapter 10 Della Porta, Consorti, D'Amico and Gitto analyse the turnaround of a local public transport company. Starting from the time it was conceived, they describe the difficulties and resistance that characterized the various attempts to embark on the road of efficiency as requested by the NPM inspired reforms. They show, in particular, how in the local public transport sector the conditions of profitability of the companies were dictated more by political choices than from managerial ones. The chapter highlights that the turnaround process was reached by formulating more realistic expectations based on the economic and financial sustainability of the service and not just on its social desirability.

In chapter 11 Truant, Argento and Grossi investigate the situation of Italian water companies by focusing on their ownership structures and financial health condition. The chapter presents an overview of the Italian water sector's regulatory framework, characterized by a proliferation of laws that generated instability. The analysis of the Italian water sector shows that profitability is lower in smaller organizations and in the case of public ownership. This aspect is a consequence of the lower public resources provided by local governments to support companies' activities and investments. The co-authors highlight that such a situation creates tension between social and economic goals and activities. They conclude that this lack of financial sustainability in Italian water-service providers can seriously affect the sustainability and goals of the whole sector.

Pescara, 31<sup>st</sup> May 2016

Prof. Massimo Sargiacomo

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# The Financial Distress of the Italian State

Elio Borghonovi, Davide Maggi

This paper is focused on the Italian State distress that is currently posing a tangible risk for its economic, social and political sustainability, and for the future of younger generations. The framework adopted is based on five main factor groups: economic environment, institutional system, politics and political behaviour, efficiency and functioning of public administrations, and social environment.

With regard to the economic environment, the most critical factors in the last two decades were the low increase in productivity, by far one of the lowest in Europe and in other developed countries, and the low increase in the rate of GDP. With regard to the institutional system, the critical aspect is related to a complex multilevel governance (State, Region, and Local government) and to the difficulty in defining clear responsibility for financial and non-financial performances.

As to politics and political behaviour, Italy is characterized by a fragmented system. The last quarter of the century was characterized by the dissolution of traditional parties and by an instable behaviour among and within the new parties (the central right Forza Italia, the central left Democratic Party - PD, Lega Nord, Movimento 5 Stelle that are critical towards traditional behaviour). The current government, moreover, is committed and engaged in reform processes and aims at providing political stability for the future.

A never-ending problem is the low level of efficiency and functionality of public administration that has a negative impact both on political behaviour and public-private relations. In July 2015 a reform of public administration was

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<sup>1</sup> This chapter is a joint work of the authors: paragraph 1 and 8 are attributed to both authors; paragraphs 2, 3, 4, 5, and 7 to Davide Maggi, and paragraph 6 to Elio Borghonovi.

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# 2

## Financial Distress in the Italian Local Governments<sup>1</sup>

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Emma Capaldo, Giuseppe Grossi, Luca Ianni,  
Massimo Sargiacomo

This contribute aims at providing a general analysis of the Italian special legislation on Local Governments' financial upset, focusing on the "attitude" of the Central Government towards both structurally distressed and financially destabilized entities. A synthetic outline of the national framework on financial distress and insolvency of Italian Local Governments is presented; data about number, dimension and geographical position of currently distressed Italian Local Governments are commented; then, the involvement of the Central Government in restoring the financial equilibrium of distressed Italian Local Governments is considered, focusing on the legislative measures of intervention, so as to remark recent regulatory changes. The available data seem to confirm several changes in the attitude of Central Government: further studies should investigate in depth the effectiveness of the legislative measures currently adopted, so as to identify criticalities and possible revisions.

### Learning Objectives

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After reading this chapter you should be able to understand:

- the typical features and the "magnitude" of the circumstances of local financial distress regulated in the Italian legislation.
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<sup>1</sup> Although this article is the result of a joint research, paragraph 2.1 and 2.2 can be attributed to Emma Capaldo; paragraph 2.3 to Giuseppe Grossi; paragraph 2.4 to Luca Ianni; paragraph 2.5 to Massimo Sargiacomo.

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# Financially Distressed Local Governments Recovery Plan<sup>1</sup>

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Based on Foucault's theory of "governmental rationality", this work intends to underline the connections and consequences of the implementation, in Italy, of the so called "fiscal federalism", stressing also the interaction that the "new" scheme is having in the crisis scenario of the last years. Based on the analysis of a study case (Castellarano Municipality) the work presents and discusses the different implications of recovery plans under "new" rules for Italian local public administrations which slowly try to overcome stratified typical models of bureaucratic culture, looking for acquiring a managerial culture which should be also manifested in the ability to ensure consistency between the expectations of the users and the minimization of the resources used. Aim that can be achieved only thanks to a palpable reorganization of Italian local public bodies.

## Learning objectives

After reading this chapter you should be able to:

- Understand the crisis in local public bodies;
- Understand the financial distress in local public bodies;
- Discuss the recovery plan in local public bodies.

<sup>1</sup> The chapter is the result of a joint effort and formulation. However, Antonio Gitto (corresponding author) wrote sections 3.3 and 3.4; Michelina Venditti wrote sections 3.1 and 3.6 ; Gianluca Antonucci wrote sections 3.2 and 3.5.

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# 4

## **Financial Distress in the Italian National Healthcare System (INHS): physiology or pathology of a decentralized (ongoing) federalist system\***

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Luca Ianni, Antonio D'Andreamatteo, Federico Lega,  
Massimo Sargiacomo

This chapter deals with the Financial Distress in the Italian National Healthcare System (INHS) in the light of the recent trend towards a decentralized (regional) federalist system and in relation to seemingly current re-centralization set by Italian Government also for the Healthcare Sector. In this respect, drawing on “governmentality framework”, we’ll try to improve our understanding of the multi-tier situation generally featuring INHS among regions and the related financial distress within decentralization or (re)centralization debate. Furthermore, we’ll try to make it clear how this possible trade-off between them might be solved to better control the regional healthcare expenditure, preventing or decreasing financial distress without jeopardizing a decentralized (ongoing) federalist system. At the same time, highlighting what conditions are necessary in order to get it completely accomplished, so that regions may feel more responsible to citizens and as a consequence enhancing regional accountability. Finally, we’ll conclude that re-centralization may be possible and “in tune with” a regional federalist system, but on condition that it is limited to guarantee, basically as steering role, that governmental healthcare objective may be reached, and thereby making the overall INHS more sustainable for the future.

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# 5

## Healthcare Budget recovery plan: the Abruzzi case<sup>1</sup>

Antonio D'Andreamatteo, Luca Ianni,  
Massimo Sargiacomo

This chapter explores the challenges that Italian National Health System is addressing to achieve efficiency, effectiveness and sustainability as a whole. There is still paucity of studies concerning public services turnaround, while the recent global crisis and the major challenges that the healthcare system is facing worldwide call for instruments to prevent and solve the financial distress. Healthcare budget recovery plans are tools used by the Italian Central Government to force regions to recover from poor health and financial performing of their health systems. Despite a general negative judgment about the first experiences of “failing” regions, Abruzzi can be identified as a case where after the implementation of new strategies, a turnaround is already underway. Criticalities still persist with particular reference to the provision of the Essential Levels of Care (LEAs).

### Learning Objectives

After reading this chapter you should be able to understand:

- the challenges that the Italian National Healthcare System (INHS) faces to overcome financial distress;

<sup>1</sup>The chapter is the result of a joint effort by the authors who share the formulation. The writing of the specific sections however has to be divided as follows: D'Andreamatteo Antonio (corresponding author): paragraphs 5.3, 5.4.3, 5.4.4, 5.5; Ianni Luca: paragraphs 5.2; 5.4.2; Sargiacomo Massimo: paragraphs 5.1, 5.4.1, 5.6.



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# 6

## Financial Distress In Italian Public Universities: General Predictors And Features Of Emerging Issues<sup>1</sup>

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Armando Della Porta, Augusta Consorti,  
Massimo Sargiacomo, Michela Venditti

In the last years, Italian public universities were affected by several reforms regarding not only the introduction of more rational funding allocation systems but also the possibility of closing universities that are persistently in a financial distress state. If, on the one hand, the prediction of bankruptcy will have the effect of making continuous performance improvement even more important for universities as a necessary condition to survive, on the other hand, the new legislation faces a context, the Italian one, with a number of critical issues that will make this task even more complicated. One of the most important issues concerns the fact that public resources are allocated following a social cohesion principle and not a meritocratic one. Hence the interest to investigate the financial health of Italian universities in order to better understand how the risk of bankruptcy is framed. The results show that the persistence of a social cohesion principle despite the reforms makes the correlation between performance and financial distress still weak with the result of exposing indiscriminately both high and low performing Italian universities at risk of insolvency.

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<sup>1</sup>This chapter is the result of a joint effort by the authors who share the formulation. However, the writing of the specific sections has to be divided as follows: Della Porta (corresponding author): paragraphs 6.1,6.4,6.5; Consorti: paragraphs 6.2; Sargiacomo: paragraphs 6.3.2,6.3.3; Venditti: paragraphs 6.3.,6.3.1.

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# The interrelations between Personnel Burn Out and Financial Distress in Italian Public Universities<sup>1</sup>

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Valentina Battista, Ida Verna, Lorenzo Lucianetti,  
Massimo Sargiacomo

This study aims at investigating the interrelationship between personnel burn out and financial distress in Italian public universities. To this end the paper reviews the introduction of recent public reforms on the Italian university system. These reforms led to increase pressure to pursue financial efficiency and research quality, affecting in turn, the burn out of academicians and employee staff. Using a sample of 351 respondents from 54 Italian public universities, the paper shows that when high levels of financial efficiency are combined with high levels of research quality, the level of individual burn out increases. A deeper analysis shows to what extent the employment of PMSs (i.e., interactive and diagnostic) increases or reduces the level of personnel burn out. The results highlight how the current situation of financial distress experienced by the Italian public universities affects the level of burn out at individual level, especially in those academic environments that are performing well both financially and academically.

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<sup>1</sup> Although this article is the result of a joint research, paragraph 1 and 2 can be attributed to Ida Verna; paragraphs 3, 4, 5, 6 to Valentina Battista (corresponding author); paragraph 7 to Lorenzo Lucianetti and paragraph 8 to Massimo Sargiacomo.

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# Recovery Plan in Italian Public Universities: the Siena case<sup>1</sup>

Maria Pia Maraghini, Angelo Riccaboni,  
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Italian universities are currently facing tough changes and financial difficulties and, in some cases, action to restore (turn around) economic and financial balance was needed. External and internal factors contributed to this state of affairs. Global crisis, an overall reduction in public funding, radical organizational reforms, on the one hand, and inadequate internal management and control system, on the other hand, are the main challenges which Italian universities are currently coping with. This chapter focuses on the University of Siena, a medium-sized, centuries-old institution founded in 1240 with an excellent reputation. Since the 1990s this University had been growing and expanding for many years (new faculties, more courses, increases in student numbers). But, its 2008 budget was significantly in the negative and, after a long phase of growth, the whole University community experienced serious financial and organizational difficulties. The aim of this chapter is to examine how this situation - already problematic and exasperated by an increasingly difficult external environment, in an academic context committed to change and facing internal financial difficulties combined with administrative issues - has been overcome. Financial difficulties were accompanied by a significant organizational inefficiency and a worrying lack of appropriate management and control systems and tools. After the second section, where general topics

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<sup>1</sup> This chapter is the result of a joint effort by the authors who share its formulation. However, the writing of the specific sections was divided up as follows. Maria Pia Maraghini (corresponding author) wrote paragraph 8.4; Angelo Riccaboni wrote paragraphs 8.1 and 8.5; Francesca Trovarelli wrote paragraphs 8.2 and 8.3.



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# 9

## Financial Distress in Italian Public Transports: General Predictors and Features of Emerging Issues<sup>1</sup>

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Armando Della Porta, Luciano D'amico, Antonio Gitto

For a long time, the constant injections of public funds avoided the risk of insolvency and bankruptcy of Italian public transport companies. Nowadays, however, things have changed and it is no longer possible, especially in the light of the European Union's prohibition to provide state aid, to keep on providing unconditional funding. Some recent cases of bankruptcy in this sector testify unequivocally the existence of areas of suffering, making the analysis of the financial conditions of the Italian local public transport companies urgent in order to verify their ability to meet their short and long term financial commitments. The financial difficulties of public transport companies are the effect of the contrast in place between the central government - that in times of crisis imposed a performance funding logic -, and the local governments, which resist in adopting such logic defending the sociality of the service. This chapter aims at showing, thanks to some empirical evidences, that such resistance reached a critical phase that is leading the whole Italian local public transport sector to a state of financial distress.

### Learning objectives

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<sup>1</sup> This chapter is the result of a joint effort and formulation. However, Armando Della Porta (corresponding author) wrote sections 9.1, 9.4, 9.5; Luciano D'Amico wrote section 9.3 and Antonio Gitto wrote section 9.2.

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# 10

## Recovery Plan(s) in Italian Public Transport companies<sup>1</sup>

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Luciano D'Amico, Antonio Gitto

The chapter aims at analysing the crisis of public transport in Italy. After some brief reflections on the concepts of crisis and turnaround, we will analyse the case of a local public transport company to describe, starting from the time it was conceived until its end, the difficulties and resistance that characterized the various attempts to embark on the road of efficiency, shown by the various regulatory reforms. A story emerges of local public transport which, for a variety of reasons, continually transformed itself, without ever seriously inverting the course of inefficiency and of economic and financial deficit. However the start of a new company on the ashes of old ones, forced both the local political authorities and the new management to undertake the path of efficiency.

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### Learning objectives

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After reading this chapter you should be able to:

- Understand the crisis in local public transport service;
  - Understand the impacts of transport policies in the period 1978-2014;
  - Discuss the recovery plan in local public transport service.
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<sup>1</sup> The chapter is the result of a joint effort and formulation. However, Armando Della Porta (corresponding author) wrote sections 10.1, 10.2, 10.6, 10.9, 10.11; Augusta Consorti wrote sections 10.4 and 10.5; Luciano D'Amico wrote sections 10.7 and 10.8; Antonio Gitto wrote sections 10.3 and 10.10.



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# Financial Health of Italian Water Companies<sup>1</sup>

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Elisa Truant, Daniela Argento, Giuseppe Grossi

This chapter aims at investigating the situation of Italian water companies by focusing on their ownership structures and financial health condition. The financial sustainability of Italian water-service providers reflects the complexity and the lack of homogeneity of the water sector and varies according to company size, type of operator, ownership and macro-geographical location. The chapter presents an overview of the Italian water sector's regulatory framework, characterized by a proliferation of laws that generated instability. This context generates high level of ambiguity that may hamper the activities of the water-service providers. A deeper analysis shows that, in a time of financial constraints, the infrastructural investments required to provide quality services generally create tensions because water companies need to prioritize and make trade-offs on diverging goals and activities. This situation contributes to increasing the complexity that Italian water companies have to face and therefore can hinder the achievement of long-term financial sustainability. However, a lack of financial sustainability can seriously affect the long term sustainability and goals of the whole sector.

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## Learning Objectives

After reading this chapter you should be able to understand:

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<sup>1</sup> Although this chapter is the result of joint research, paragraphs 3 and 4 can be attributed to Elisa Truant; paragraph 1 and 2 to Daniela Argento; paragraph 5 to Giuseppe Grossi.

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