

Andrea Calabrò

# The Privatization Process and its Effects on the Italian Accountability System



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# The Privatization Process and Its Effects on the Italian Accountability System

Andrea Calabrò<sup>1</sup>

## Abstract

The effects of the privatization process have been widely studied, but with controversial results. In many countries this process ended up with public service providers still owned by the state (partial privatizations). The paper discusses how issues related to the privatization process (corruption, conflicts of interests and lack of accountability) may be discussed from different perspectives – New Public Management (NPM), New Public Service (NPS), and New Public Governance (NPG). While in the NPM the privatization process aims at improving efficiency in public service providers, it seems to create some ethical problems if analysed from the NPS. Moreover, NPG, as co-production, networks and cooperation, offers valid alternatives to the privatization process. Through a case study analysis on the public service providers owned by the MEF (Italian Ministry of Economics and Finance) the paper highlights the stop and go characteristic of the Italian privatization process. This situation leads to huge ethical issues. We show the main flaws in the ethical and accountability systems of these organizations suggesting possible solutions using a public governance approach.

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## Keywords:

Privatization, Accountability, Corruption, Conflicts of interest

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## Editorial notes

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## 1. Foreword

Privatization is an important ingredient of market reform programs. These reforms are expected to improve economic efficiency by reducing the role of the state in the economy. Despite many examples on significant market improvements (Kikeri, Nellis, 2001), the academia, politicians, and the media have recently attacked privatization, voicing concerns about its positive results and its impact on the public interest (Bayliss, 2002; Harper, 2000; Manzetti, 1999; Stiglitz, 2002). Moreover, in many countries (e.g. Italy), firms are still controlled by the state. These situations show partial privatization processes.

The paper emphasises attributes, limits and open-debates related to the privatization process, also recognizing the need of public service providers to be accountable to citizens. The overall research questions are: which are the main reasons leading to partial privatization processes? Is it possible to discuss the privatization process from different perspectives (NPM, NPS, NPG)? Which are the consequences of partial privatization processes on the accountability system of public service providers?

Ethical issues arising from conflicts of interests and corruption of public officials may be a reason for the failure of privatizations. As Joseph Stiglitz highlighted (2002, page 58): “Perhaps the most serious concern with privatization, as it has so often been practiced, is corruption.” Generally, corruption derives from situations of public officials’ conflicts of interest. As result of partial privatization processes, it may be possible to find corruption and conflicts of interest in the governance structure of public service providers. Therefore, there is an urgent need for accountability.

The contribution of the paper is threefold. First, corruption and unethical behaviours, related to conflicts of interests, are considered critical aspects for the successful definition and implementation of public service providers’ governance systems. Second, it contributes to the debate on the attributes and effects of privatizations, discussed in different perspectives (NPM, NPS, NPG). Third, the case study analysis shows the partial privatization process of the Italian public service providers owned by the MEF and their consequent ethical problems. New modes of governance (joined-up governance, network governance, co-production and cooperation) are considered reasonable alternatives (Pestoff, 1992; 2008) to the privatization process. Indeed, a public governance



approach may stimulate more effective public service delivery assuring the public interest.

The paper is organized as follows: in section two and three corruption and conflicts of interests are discussed in relation to the privatization process. In section four, the privatization process is presented from different perspectives. Methods are shown in section five. The results are summarized in section six. Discussion, findings and future research directions are presented in the last two sections.

## **2. Corruption issues in the privatization process of public services**

Many countries have implemented large privatization programs, but in many others (e.g. in Italy), the state retains a large presence, often across many sectors of the economy (La Porta et al., 2002).

Privatization regards the changing of state industries in manufacturing, public utilities, transport and telecommunications. These changes have been most apparent in Europe, although experience has been patchy: telecommunications has largely been privatized; railways are sometimes state-owned, sometimes privately-owned and sometimes in mixed ownership; many countries still have state-owned industries. Moreover, there has been a different sign of privatization or a shift in the activities undertaken by the state in the United States or Canada (McLaughlin et al., 2002).

When looking at the effects of the privatization process, it is not possible to come to any conclusions. The results are contrasting. While in some cases privatization processes did not reach the declared levels of high quality services and market competition, in some others privatizations have had positive effects on profitability and performance. Nevertheless, partial privatization processes exist worldwide. However, with privatization, private incentives allowed to work improving corporate governance, and productive efficiency at the firm level (OECD, 2000). What seems to be clear is that when the privatization process resulted in the direct introduction of competition, the benefits to the consumers and the economy as a whole were considerable.

Some of the main criticisms against the privatization process are based on the belief that the gains in firm profitability are achieved at the expense of society. These gains are claimed to be extracted from consumers through the use of market power (Bayliss, 2002). Moreover, the privatization process may affect consumer welfare through decreased access, worsened distribution, and lower quality of goods and services (Bayliss, Hall, 2000; Freije, Rivas, 2002). Furthermore, the most serious concern with privatization, as it has so often been practiced, is corruption. The presence of corruption opportunities in the privatization of state assets is influenced by several factors including the choice of privatization method, the implementation phase, and the legal framework.

In an empirical study Turnovec (1999) demonstrates that privatization in the Czech Republic was less successful than official statistics indicate in transferring state assets to the private sector, partly as a result of corrupt transactions. Stiglitz (2002) suggests that: "In country after country, government officials have realized that privatization meant that they no longer needed to be limited to annual profit skimming. By selling a government enterprise below market price, they could get a significant chunk of the asset value for themselves rather than leaving it for subsequent officeholders. In effect, they could steal today much of what would have been skimmed off by future politicians". Other related contributions include Shleifer and Vishny (1998) and Laffont and Meleu (1999), who discuss the link between corruption and the decision to privatize, and Kaufmann and Siegelbaum (1997) who discuss corruption and the optimal design of privatization.

The privatization process is thus susceptible to corruption. Corruption in turn affects the outcome of the privatization process in terms of post-privatization market structure and therefore economic efficiency. Post-privatization market structures are in many cases dominated by the large stake of the state in public service providers (e.g. Italy). Therefore, there is an urgent need for accountability.

The problem of corruption associated with the privatization process seems thus crucial. We do not argue that an increase in corruption in the public sectors is actually caused by the privatization process. Privatization may, in fact, be no more than a convenient vehicle for corruption (Kaufmann, Siegelbaum, 1997). Moreover, differing approaches to the privatization process incorporate different factors that can either stimulate or hinder the potential for govern-

ment officials and their private sector counterparts to engage in corrupt practices. The fact that the state has still control rights can be associated with level of corruption in privatization. Sources of opportunistic behaviours depend largely upon the ability of politicians and bureaucrats to create new control rights or to define old control rights, the exercise of which can be sold to extract rents. Indeed, maintaining a partial ownership link the government sustains the government official's direct control rights, with the special opportunities for rent-seeking that this implies. Where the government retains exceptional governance powers, such as through the use of so-called "golden shares", this risk - and the potential for corruption - increases (Kaufmann, Siegelbaum, 1997).

### **3. Conflicts of interest issues in the privatization process of public services**

In cases of partial privatization processes, managers of still state-owned firms are often political appointees and their employees were given a status of equivalent to that of the civil servants. Therefore, the impact of their actions seems to directly relate to the citizens (clients or customers).

Their actions are relevant issues for ethical considerations. Moreover, the recent scandals in the public sectors, let us think about the importance of ethical systems which avoid conflicts of interest that might lead to corruption and unethical behaviours in public services. In fact, in the last years, ministers, agencies, central and local administrations are often involved together in public services provision with shared responsibilities. Thus, citizens can perceive as complex, incoherent and even useless this distribution of responsibility and competences. Questions on ethics, accountability and governance become imperatives for all governments, because of this crisis of legitimacy. The importance of renewal of the ethical system and its introduction in the governance structure of public service providers is thus crucial. In doing so, it is important to take into account that public sector employees can face conflicts, especially when personal goals are not consistent with maximising the benefits of citizens. Public officials can face a conflict when they are able to advantage their own position at the cost of other actors involved. However, the lawful resolu-

tion of these conflicts rests on the principle that public officials have an obligation to look after the interests of all shareholders. That theoretical simplicity of goals and principles does not seem to hold sway in the public sector. Showing many partial privatization processes, the current situation let us think about the importance of understanding what a conflict of interest is, and how it may be avoided in public service providers. This aspect becomes more critical in these firms because of the involvement of the public interest.

The Organization for Economic Cooperation and Development (OECD) has undertaken extensive work on conflicts of interest in public sector and has developed the following simple and practical definition: A 'conflict of interest' involves a conflict between the public duty and private interests of a public official, in which the public official has private interests which could improperly influence the performance of their official duties and responsibilities (OECD, 2006). While conflicts of interest should be avoided wherever possible, conflicts often happen without anyone's fault. Conflicts of interest can – if not identified, disclosed and managed effectively – cause public officials to put private interests above the public interest; thereby compromising their work and creating a catalyst for serious misconduct and corruption. Public service providers and also the other public sector organizations must ensure that conflicts of interest are seen to be managed in a transparent and accountable manner. The perception that conflicts of interest are not being managed properly can undermine confidence in the integrity of public officials and public sector organizations (OECD, 2005). In many cases having a code of ethics with prescriptions on conflict of interest and sanctions, may be helpful. This is also needed because of the growing sense among the public in western democracies that corruption by public officials is increasing (Chapman, O'Toole, 1995; Frederickson, 1999). There is a significant shift in public service ethical standards and, subsequently, in unethical behaviour (Bovens, 2008; Hondeghem, 1998; OECD, 2000; Van Wart, Berman, 1999). Those considerations lead us to the consciousness that something must change in public sector organizations. The importance of citizens' interest and the need to focus on public value lead us to consider strategically the accountability system that each public organization could adopt. This becomes more important in public service providers which are still state-owned. In those cases the adoption of businesslike method must be accomplished with the consideration of the public interest and value,

and with the right tools for improving effective accountability to the citizens.

#### **4. The privatization process through the lens of New Public Management, New Public Service, New Public Governance**

The privatization process is aimed at shifting, functions and responsibilities, in whole and in part, from the government to the private sector through such activities as contracting out or asset sales. The definition seems useful because it is encompassing (Bozeman, 2007). A broad definition serves best simply because it covers the many activities that are generally referred to as “privatization”.

It is often common refer to privatization as a mechanism or a tool of the NPM perspective; but it is not appropriate and correct. The NPM is a set of approaches to public management reforms and it seems possible to look at the privatization process as a mechanism used during the NPM for realizing public sector reforms. However, we are careful in stating that, because, there are several distinctions between NPM and privatization. First, privatization is the older term. The term entered the dictionary around 1968. This makes the terms about fifteen years senior of NPM. A second distinction seems that the NPM seems to have more management strategy trappings than privatization (Bozeman, 2007). Indeed, privatization is about moving public performance and functions to the private sector, but NPM includes many other trappings such as, for example, viewing the client as a customer. It is perhaps accurate to say that privatization is a broad tool kit, whereas NPM is, as advertised, an approach to management reform. But it would be a mistake to make any hard-and-fast claims about specific boundaries between NPM and privatization. The privatization process is a fundamental tool to be used for re-organizing the national states. Indeed, it turned the so called state-owned firms in more market-oriented entities.

NPM is a paradigmatic break from the traditional model of public administration (Hood, 1991). Public sector reforms have been a common experience across the world despite its different forms (Pollit, Bouckaert, 2004). During this era several countries became exemplars of NPM (e. g. New Zealand and Australia). More recently, however, cracks have appeared and the need of new way of thinking on public management practice has begun to be addressed to the weaknesses of NPM. There are many studies that try to overcome to those weakness,

in particular the public value approach is attracting considerable interest (Bozeman, 2002; Hartley, 2005; Hefetz, Warner, 2004; Smith et al., 2004; Stocker, 2006). A new paradigm on government activity, policy making and service delivery may emerge bringing with it important implications for public managers. In this new light also the privatization process assumes a new shape. Authors start to look at negative effects of the privatization processes that often results in partial processes with no improvement of public service values for citizens. They try to address the main lacks of these partial processes to the existence of corruption and ethical problems that might arise from conflicts of interests among various actors. These arguments come from authors that highly contested the concept (Groot, Budding, 2008). Indeed, in recent years, it seems that the apprehension for the potentially negative impact of privatization on the ethics of public officials has been strengthened by highly publicized scandals in many OECD countries. Besides, there is an increasing concern about the impact of NPM reforms on public officials' ethics (Maesschalck, 2004). Authors from the U.S. context, also forcefully expresses their concerns about the ethical consequences of NPM innovations such as privatizing and they argue for a re-regulation (Frederickson 1999). Some other authors argued what has recently been labelled the New Public Service (Denhardt, Denhardt, 2000). They show NPS as an alternative to the dichotomy between the old public administration and the NPM. They propose new mechanisms in which the primary role of the public official is to help citizens, meeting their interests rather than attempt to control or steer society. Contrasting the NPM, the NPS recognizes also that the relationship between government and its citizens is not the same as that in a business activity between the firm and its customers. Therefore, the privatization process is seen as a market-based mechanism and because of its failure in some contexts becomes inappropriate, also for the ethical problems that arise from its application. Following the NPS, therefore, the privatization process seems to be inappropriate but the emphasis is more on ethical issues relating to public officials' behaviour rather than directly to that process.

A reasonable alternative (Pestoff, 1992; 2008) to the privatization process is given by the New Public Governance perspective. This perspective includes many modes of governance (e. g. joined-up governance, network governance, co-production and cooperation). These are looked as alternatives to the privatization process in public service provisions; it seems also that they might be able

to solve many of the above-described issues (corruption, conflicts of interest, and unethical behaviour). These problems are partially solved through participatory citizenship in the government of complex issues like the public service delivery (Klijn, 2008).

This discussion has pointed out how the privatization process assumes different meanings and aspects in relation to different perspectives (NPM, NPS, NPG). What seems to emerge is that in times of partial privatizations, deregulation in public service delivery and reorganization processes, the shape and the power of the governing bodies are constantly changing. Some questions arise: does the accountability system keep up with these developments? Moving from NPM, NPS to NPG approaches would better address the over-mentioned issues and grant the public interest for citizens? Could be the implementation of an accountability system the solution to the lack generated by these partial privatization processes?

## 5. Methodology

This paper builds on a descriptive case studies analysis (Eisenhardt, 1989; Yin, 2003). The analysis is on the Italian privatization process. Two main reasons lead us to this case selection. First, it shows the general phenomenon of partial privatization processes in sectors which are strategic for citizens.

The MEF (Ministry of Economics and Finance) owned many firms involved in the public services provision. At the same time those public service providers move into businesslike methods to improve efficiency and performance. Our focus is on their ethical and accountability systems. The aim is to identify if in cases of partial privatization processes, citizens have more risks on their public interest and value. This aspect is important in order to give an exhaustive picture of the actual status of the Italian privatization process and of public service providers' accountability system.

This qualitative case oriented research (Yin, 2003) helps to modify and expand the theory on the privatization process giving also contribution to studies on accountability in the public sector.

The case analysis is structured in two main parts: a. the analysis of the situation pre and post privatization process; b. the formal and content analysis of the codes of ethics of all the public service providers controlled by the MEF.

## **6. The Italian case: the privatization process and its effects on the accountability system**

The privatization process in Italy was characterized by a stop and go dynamic (Marelli, Stroffolini, 1998). Privatizations realized between 1992 and 1999 as 185,000 billion lire (more than €95 billion), which accounts for 12.3% of the GNP in 1992. This gave relief to the state finances, and it can be considered a success (De Nardis, 2000). However, privatizations did not necessarily translate into a real shift of control over privatized businesses.

Privatizations in the industrial sector involved many cases of actual transfer of control, but in other significant cases, the state maintained more than 50% of the shares. As shown in the theoretical discussion on the privatization process in the NPM perspective, it downsizes the public sector; whereas NPM seeks the improvement of public sector management by adopting business management practices. But it is not difficult to say that some scholars treat privatization as one of the unequivocal features of NPM. Indeed, in this paradigm there is too much emphasis on results-based performance and that is what partially happened also with the privatization process. Moreover, because of public officials' corruption and unethical behaviour this market-type mechanism may threaten public accountability. This is due to the split created between purchasers (citizens, clients, customers) and service providers. Actually, this creates public confusion regarding who is actually responsible for the service delivery.

### **6.1 Pre-privatization and post-privatization: the Italian situation**

Until the beginning of the 1990s, the state sector in Italy was large and pervasive. State-owned Enterprises (SOE) were conceived as industrial and social policy instruments rather than profit maximizing entities. They typically operated under strong political interference. As a consequence, their operating and financial performance was very weak as compared to private firms. Under the pressure of debt and deficits, Italy's fiscal conditions rapidly deteriorated at the beginning of the 1990s. In 1993, Italy embarked in a large-scale privatization

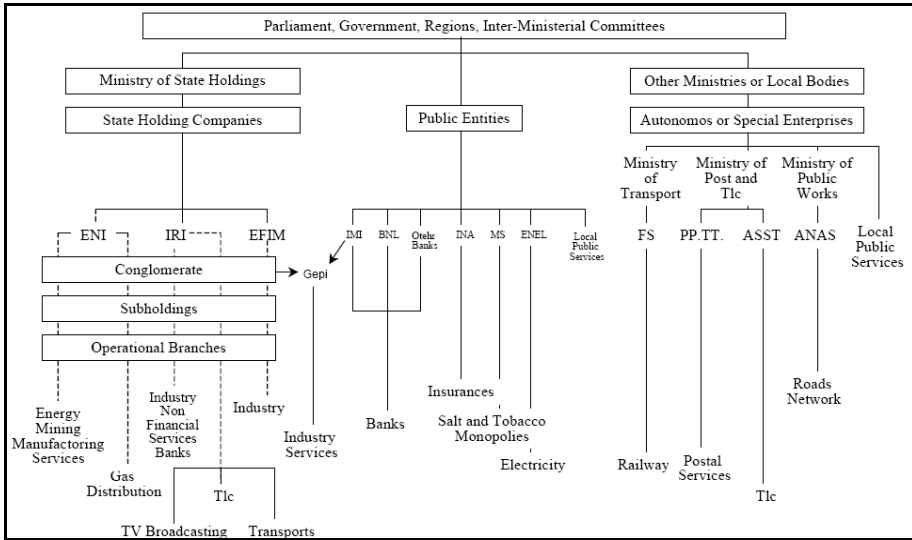


process mainly aimed at fiscal stabilization as a requisite to join the European Monetary Union (Goldstein, Nicoletti, 2003; Classens, Fan, 2002).

The results have been outstanding. Over a decade, Italy implemented 70 major sales of privatization proceeds mainly through public offers of shares, placing Italy in the third and fourth position in the global ranking by revenues and transactions, respectively (Goldstein, Nicoletti, 2003). The more immediate steps have been the transformation of state entities operating under public law into corporations and the centralization of decision-making in the hands of the Ministry of the Economy and Finance (MEF). The control structure of the SOE sector was extremely complex and characterized by the involvement of different state holding companies, public entities, ministries or local government bodies (see figure 1).

Until 1992, the majority of state assets were owned by three large holding companies: IRI, ENI and EFIM, under the direct control of the Ministry of state holdings. The most important public entities were ENEL, the electricity state monopoly, IMI, a special credit financial institution, and BNL (one of the most important banks). The largest entities owned by ministries were FS, operating in the railway system, and PP.TT, managing the postal and telecommunication services (Goldstein, Nicoletti, 2003). Public firms were more conceived as instruments for industrial and social policies and not surprisingly, their financial and operating performance was generally poor. The privatization policy was needed. The objectives of the privatization program are officially stated by the MEF and presented to the Parliament on November 1992. The MEF had the duty of formulating proposals on privatization to a committee of three ministries – MEF, Budget and Planning, and Industry – and final decisions had to be approved by the Council of the Ministries, chaired by the Prime Minister. However, the MEF has been playing the key role of agenda setter in privatization issues, liaising with state holding companies and with the management of SOEs.

**Figure 1:** The Control of State-Owned Enterprises as of 1992



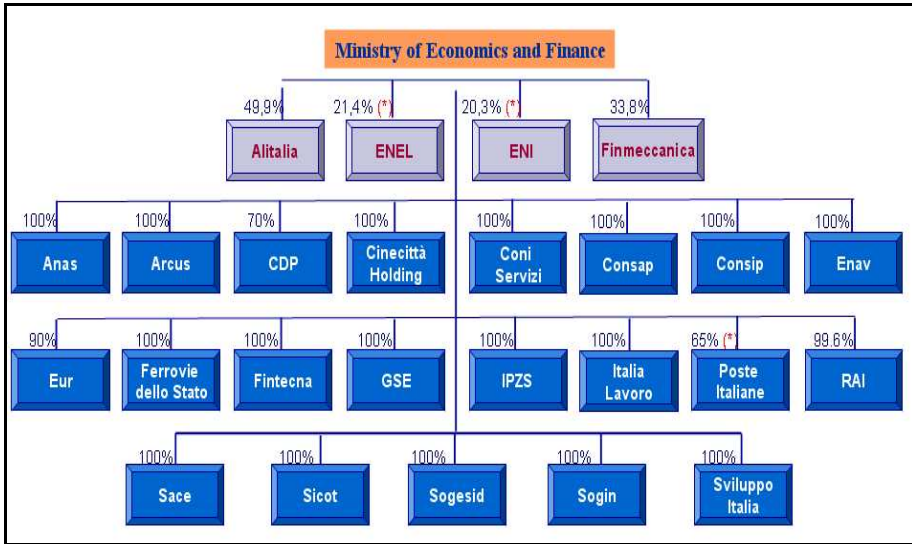
Source: Goldstein and Nicoletti (2003)

During 1996-2000, the Italian privatization process, not differently from the rest of the world, reaches its peak. The last stage of the privatization process has two main features consisting in much smaller in scale with respect to previous years and characterized by private equity placements and block transactions to institutional investors. These new aspects of the privatization process are obviously related and determined by the changed market conditions which slowed the privatization process worldwide. Indeed, governments do not want to sell shares in a depressed market. Furthermore, selling new shares of a partially privatized company at a price lower than the initial public offering price would force initial investors to realize a capital loss (Megginson, 2003). This changing environment has forced the Italian government to shift the privatization method from public offers to private sales, and when this was not possible, to tap institutional instead of retail investors.

Looking at the current situation (see figure 2), the focus is on the MEF and on the public service providers owned by it. As in the majority of developed countries, the MEF is still an influential shareholder in several privatized companies, such as ENI, ENEL, Finmeccanica, and Alitalia. Furthermore, it still fully owns FS, the railway system operator, and RAI (Italian Radio Television) the television broadcasting company. The MEF is the holding of this public

group of firms operating in the public service delivery and therefore it determines their governance system. Planning and control functions are performed by the MEF that influences also the governance structure of public service providers.

**Figure 2:** The current situation of public service providers owned by the MEF



Source: Ministry of Economics and Finance 2007.

As shown in figure 2, it seems that the Italian privatization process is now stopped. Moreover, the effects of this process are not immediately visible. Accountability practices are not well implemented. Therefore, the effects of the privatization process are disputed and contested and ethical concerns emerge. The need for accountability and ethical behaviour in managing public services is clear, especially if the partial privatization process will remain as it is now. Then, that means accountability infrastructures are needed more urgently than ever in the current Italian situation. What is already happened and what is going to happen in the Italian public service management will be determined by the governance structure of public service providers owned by the MEF.

Other questions arise: what is the role of citizens? Are they: citizens, customers and/or clients? What would be an adequate level of accountability? How to make sure that transparency, ethical prescriptions and accountability are included in the governance system?

The next section shows the current status of codes of ethics adopted in Italian public service providers (controlled by the MEF). The main focus is on ethical aspects and norms related to corruption and conflicts of interest prevention to assure the public interest.

## 6.2 The ethical structure

Recently the relevance of ethical concerns has encouraged the implementation of initiatives to restore confidence and maintain integrity in businesses. In line with this, the adoption of a code of ethics is a step towards improving the ethical culture in today's public sector.

The term "code of ethics" is defined as written standards that are reasonably designed to deter wrongdoing and, to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents; compliance with applicable governmental laws, rules and regulations; the prompt internal report on violations of the code to an appropriate person or person identified in the code; and accountability for adherence to the code.

In public service providers well defined ethical structure may help to manage conflicts of interest.

Mandatory codes of ethics have been introduced only recently in Italy for public service providers (Law no. 231/2001). This is the result of changes in systems of public administration and it reflects the effort to newly defined generally valid ethical values. The new codes outline values and ethical principles that should guide public officials in their professional activities.

The ethics codes of public service providers owned by the MEF were analysed. The content analysis will help to identify existing and potential ethical concerns faced by those firms in the current Italian context. In order to carry out the content analysis, we made an extensive review of the previous literature about the contents of ethical codes. A recent review can be obtained in Helin and Sandstrom (2007), who distinguish between content-oriented, output-oriented and transformation-oriented studies. We took as a basis several studies of content analysis in different countries (Bondy et al., 2004; O'Dwyer, Madden, 2006).

We selected codes of ethics disclosed on the Internet and their contents were thoroughly analysed (ethical principles, values, norms, rules of conduct). We collected codes both in English and Italian language. The analysis was on the current version of the codes. The aim was to identify ethical guidelines. We looked for indications of how corruption and conflicts of interest were avoided. Much of the attention was on well defined sanctions.

Despite the new regulation, some of the analysed public service providers have not disclosed the code of ethics on their website. From the 26 public services providers owned by the MEF, 22 disclosed the code of ethics (84.7%).

With regard to activity sector, firms which operate in the same sector are likely to adopt similar patterns in the preparation of an ethics code. In some firms that did not make one (15,3%), contrary to the tendency in its sector (employment service and insurance, 7%), such a strategy would be adversely interpreted by markets.

The results of our content analysis are reported, underlining the main topics the codes deal with. Before studying more deeply the topics analysed in the codes, it would be of interest to analyse several formal aspects: title, extension, date and scope of application. Concerning the title of the document, most firms simply use the denomination “Code of Conduct of X” (38.46 %). Other titles reported are “Ethical Standards” (15.38%), “Standards of Ethics and Conduct of” (23.07%), “Code of Ethics” (7.6%).

With regard to their length, the mean length is approximately fourteen pages. Nevertheless, there are larger codes, such as 23 or 30 pages.

Regarding the date, most codes were drawn up and took effect four or five years ago (36.6 % from 2001 to 2003, 45.5% from 2004 to 2006, and 17.9% from 2007 to 2008).

The scope of the analysed codes takes in mainly employees and the customers, emphasizing the ethical role played by managers, directors and partially public officials.

Focusing on the content, codes are mainly imperative codes, stating a guide for standards of conduct that firms would like their actors to follow. The structure of the codes usually show two blocks: a first block, which states the values and basic principles encouraged by the firm, whereas the second block translates the principles into certain standards of conduct for the actors in their internal and external relationships.

The 45.4% of the analysed codes miss a clear statement of their values and principles. The 36.4% lacks indications on detailed norms of conduct. Tools of promotion and sensitization to the importance of the public interest and value are present in only the 18.2% of cases.

The analysed codes are usually made up of provisions covering the following areas: use of public resources for personal benefit (31%); definition of the target group to which the code is addressed to (23.6%); duties to the public in confrontation with private interests (22.8%); definition of behaviour or conduct constituting violation of the code (13.6%); statement of preventing conflict of interests (9%); sanctions in case of violations (0%).

From the analysis, it seems that many codes are characterized by general contents containing fewer principles expressed often in terms of 'ought' or should (and not 'must'). Many are also ambiguous or unclear. The main ethical concerns in the analysed public service providers have to do with the absence of information on conflicts of interest disclosure. Moreover, none of the analysed codes have been characterized by a formulation process that includes consultation with citizens or their representations. Probably these are the major lacks emerging from the analysis.

Ethical aspects seem critical in the governance system of the MEF and its public service providers. Accountability, transparency, openness, public officials' duties, complex relationships among actors, public interests, and values are all key aspects to take into account. It seems to us that the analysed codes of ethic fulfil the role of compulsory documents. They simply suggest guidelines that are quite similar to a code of practice. The analysis shows clearly that the introduction of ethical issues in public service providers is at a beginning stage.

## **7. Discussion and findings**

Our results show that actions in favour of accountability and ethical issues have not been considered in detail during privatizations. In fact, in the analysed public service providers codes of ethics have been adopted quite recently. This is partially justified by the complex implementation of the accountability structure. Moreover, it seems now time for "re-inventing" the privatization process. Conscious of the limits and the excessive focus on efficiency and performance

in the NPM, the emphasis on ethical and accountability aspects of the privatization process becomes more evident in the NPS perspective. Finally, the NPG offers valid alternative to privatizations (Pestoff, 1992; 2008) including in the governance process citizens as key actors.

When approaching the privatization process, a wide host of management techniques and forms of organizing social life may be valid alternatives. That may challenge conventional practices and seemingly natural linkages within the on-going debate. Moreover, recognizing that the current social services provision by public service providers is lacking in quality and effectiveness gives more reasons to believe that experiments and combinations with accountability and privatization may be desirable.

The paper analysed the Italian privatization process, underlining its stop and go characteristic. In Italy many public service providers are still state-owned, and the current market competition is not effective. A major emphasis on accountability is needed. Considerations on citizens' public interest are due. Public service providers have many stakeholders and they are particularly visible to citizens. Issues of legitimacy become important. The use of codes of ethics may legitimize public officials' actions ensuring that their effects fall within the norms of society.

This is a critical point for public service providers owned by the MEF. Evidences from the analysis (content analysis of codes of ethics) suggest that these actions in line with ethical and accountable procedures are sporadic, unstructured, and introduced recently. The lack of accountability is the main weakness of their governance structure. Probably, the lack of evidence of any real efficiency associated to the privatization process gains and the decline in accountability produced by restructuring and downsizing public services is thus evident (Minogue, 2000). Although a window dressing may be likely, the disclosure of the codes of ethics on the Internet reveals a public commitment with stakeholders, not just an internal procedure. This seems a good starting point.

Governmental reforms are needed in order to use market principles and to outsource public goods and services. But nowadays, the public sector with its modern representative democracy can be described as a concatenation of principal-agent relationships (Strom, 2003). Hence, public accountability is an essential precondition for the democratic process to work, since it provides citi-

zens and their representatives with the information needed for judging the propriety and effectiveness of government.

Evidences from the codes of ethics analysis show that many problems still refer to how the fundamental values of public service organizations have been undermined by this partial privatization process (Lawton, 1998). Besides, political and policy considerations are significant and pervade leadership, strategy and management of public service organizations. This is also visible in the current Italian context.

It is needed to define, operationalize, measure and evaluate public services and public services organizations. Relations and communications between the government and the citizens become fundamental. New modes of governance, more citizens-oriented go in that direction (Klijn, 2008; Pestoff, 2008). The attention is on NPG (Osborne 2006) with its emphasis on partnership, networking (Klijn, 2008) and lateral modes of organizing than the vertical command and control forms typical of the NPM (Newman, 2001). It also takes a more pragmatic view on public services that can be delivered publicly and privately. The more general concept of public governance (Osborne, 2006) often includes administration, stakeholder pluralism, management within networks, and legitimacy (Frederickson, 1997). These new modes of governance may address the accountability deficit in the MEF governance structure. The analysis shows that accountability tools are often introduced through pilots, or incrementally to build support for more inclusive and transparent governance (Bovens et al., 2008).

The lack of accountability has been the bigger concern, particularly with regard to the privatization process (Braithwaite, 2006). Mandatory codes of ethics are not enough, but a good starting point. Surely, other means are needed to promote a high level of public services and the implementation and compliance of those codes seems to be essential. However, a code imposed from on high will not fit the bill, if the goal is to produce a document of shared values. More citizens' participation through a bottom-up process may fill the complex process of building codes with shared vision, values, and interests.



## 8. Conclusions and future research directions

It seems that ethics and accountability are gaining prominence in the governance debate. There is a perception that standards in public life are in decline. This raises questions about the costs of misconduct by who have been entrusted with guarding the public interest. These arguments are particularly relevant in public service providers. The paper shows that the perception of a fall in public standards is linked to the shifting role of the state, which is undergoing tremendous reform.

The privatization has been a starting point, but now the question is on how to ensure standards of quality and efficiency in public services. As a result, public service providers are under pressure to transform. The goal is to meet this demand for accountability. This is possible through the disclosure, management and prohibition of public officials' conflicts of interest. Therefore, well-designed accountability mechanisms have to be introduced and implemented. Indeed, the decision-makers in public service providers may have the opportunity to explain and justify their actions. Citizens and interest groups may thus address questions and offer different opinions.

Contemporary theory and practice of public policy-making and public service delivery stress their increasingly pluricentric, multilevel, networked, hybrid, and fluid nature (Rhodes, 1997). That is the emergent approach. However, when public policy is produced in complex networks featuring multiple, overlapping coordination mechanisms, the identification and make up of accountability relationships becomes problematic.

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