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Governance through "public utilities" models: a regional social interaction approach

Immacolata Caruso (ISSM-CNR, Napoli, Italy)
Imma.caruso@issm.cnr.it
Tiziana Vitolo (ISSM-CNR, Napoli, Italy)
tiziana.vitolo@issm.cnr.it

Abstract

Based on neo-regionalist literature, this paper put on the foreground the importance of public utilities in the "governance" processes. New economic and cultural trends need the abandon of a hierarchical model of government in favour of the *governance* model, based on organizational structures of partnership and/or of open market. A first step in governance process is the decentralization, or "decentralizing governance", that is to restructure and to reorganize local authority with the creation of a system of co-responsibility among institutions at the central, regional and local levels according to the principle of "subsidiarity", and public, private or civil stakeholders. A typical public domain service, the public utilities management, become a crucial issue in order to identity and measure "governance" quality in different local contexts. The paper compares three different typologies in the public utilities market and their effects on the "governance" process. A first typology is based on tenders enhancing the concurrence among local and foreign actors for gaining the assets of the local services; a second one is based on the "project financing strategy", involving a cooperation mechanism between public and private sector: this model is diffused all over the world; a third one is focused on the sharing of the whole local services branch among a number of contractors, each one assuring the best of efficiency in its field.
Finally, the paper aims identifying "actors" and "items" of the *governance* model involved in public utilities management and giving also indications and suggestions for the implementation of local strategies and policies in order to enhance cooperative connections among suppliers, subcontractors and customers.

Introduction

The recent global trends and the erosion of the economic sovereignty of the State-nation (Ohmae,1996) have resulted in a rethinking of the national Governments' role and economic development policies. The hierarchical model of the State, based on the principle of *authority*, has been defeated by the multiplication of players and layers of negotiation – international, national, and local – which require a different model of government, referred to as *governance*, based on the principle of *subsidiarity.* These levels of negotiation occur within organizational structures of interaction and partnership that are more and more characterizing local societies (Perulli, 2000).

However, several States have started processes of decentralisation of the public sector, creating a plurality of government levels, a good process of *governance* involves many geographic authorities, societal stakeholders and social sectors. Geographic entities include international, national, sub-national, and local authorities. Social stakeholders include the Government, the private sector, and the civil society. Due to the complexity of today's societies and market globalisation, this process could benefit from the development of trans-national, regional, and local networks.

While the *governance* issues have become more and more important, as demonstrated by the many investigations and international conferences that focus on them, and also by the interest of the European Union which dedicated a White Book to governance, little has been done in order to evaluate at local level both the effects of networking on *governance* and the role of intermediate institutions.

Therefore, a general goal could to investigate how to assess the effectiveness of *governance* strategies and, in order to obtain an adequate proxy of these processes, to analyse a phenomenon closely linked to the wider participation of economic, social and political agents in the processing and implementation of decentralised decision-making, i.e. the reform of the system of public utilities.

This paper aims to assess the evolution of the public utilities market, filtered through the study of the behaviours of the different stakeholders and the connections of these latter in terms of interdependency and cooperation. The theoretical approach adopts neo-regionalist concepts, focusing on the importance of the empowerment of the regional institutions for local development as well as on the growth of models of social interaction at a regional level.

A public strategy of decentralisation and entrepreneurial management of local institutions is considered as at the heart of administrative governance . In this framework, the advanced training of public agents is crucial as much as the growing responsibility of local institutions, in terms of efficiency and achievement of results. Today more and more importance is attached to regional institutions (Cappellin& Batey, 1993) as they are intended to create and support regular and continuity models of social interaction at a regional level (Saxenian, 1994).

1. 1 Governance, decentralisation and intermediate institutions

Considering as a premise that governance is the exercise of political, economic and administrative authority to manage a society's affairs – which include those mechanisms, processes and institutions through which collective decisions are made and implemented, and through which citizens, groups and communities, that pursue their visions, coordinate their interests, exercise their legal rights, meet their obligations, and mediate their differences – we refer to a multilevel governance that operates through territorial and functional networks, cross-cutting policy networks, a number of technical bodies, distributive coalitions and organised economic groups. In this idea of governance , the ability to solve conflicts becomes of crucial importance. Means such as participation, partnership, empowering and enabling, and community focus could be seen as fostering transparency, responsiveness, consensus orientation, accountability and equity.

In order to change from a pyramidal governmental system to a multilevel governance, a first step is decentralization, or "decentralizing governance". It refers to the restructuring or reorganization of the authority to create a system of co-responsibility across the institutions of governance at a central, regional and local level according to the principle of subsidiarity, thus improving the overall quality and effectiveness of the governance system, and increasing the authority and competence at the sub-national levels[1].

During the past decades, Governments have attempted to implement a variety of administrative decentralization policies. These have ranged from wider scope ones, which were meant to transfer development planning and management responsibilities to the local units of government, to those with a narrower scope which were intended to decentralise or reallocate administrative the tasks to the units of central government. On an unprecedented scale, central governments are allocating more substantial portions of their national budgets, more administrative authority, more economic responsibilities and more political autonomy to local authorities. However, some difficulties still remain in the decentralization process which are due to cultural and political elements, as those emerging from the way in which the public perceives a host issues including the issue of authority, of the role of the Government, of the role of citizens, of the problem of conflicts, of consensus building, of power and of the role of elites. But, far from being exhaustive the list of the issues in question may go on as follows:

⇒ The complexity of different administrative levels;

⇒ A clear-cut distinction between the objectives of the central Government and the needs of local authorities;

⇒ The limits of adaptation to the networking model on the part of the stakeholders of the civil society and of private sector;

⇒ Budget limitations;

⇒ Human resources qualification.

Therefore, governance needs capacities, both at a central and at a local levels to coordinate goals, policies and strategies.

At the same time, it is recognized that an improved governance requires not only strengthened central and local governments but also the involvement of other stakeholders from the civil society and the private sector in partnerships with governments at all levels. Capacity building in all of the three spheres of governance – State, society, and private sector – becomes so critical. In this context a really efficient role could be played by intermediate institutions that may become key partners of national and sub-national governments in their transition towards decentralization-based forms of local governance.

It is also very important to emphasise the need for a common course leading to consensus building, that is expected to rely on the recognition of a starting point and of the preconditions for building a consensus (the perceptions, aims, actions and resources of the stakeholders involved in the development project). This is the only possible way to describe the dynamics of convergence and divergence of the different components of the process in terms of their common goals. The *policy networks* fall within this very useful context. By policy networks we mean the governance model of contemporary societies and economic systems, which is characterised by the setting up of more or less stable social relations across their stakeholders, with regard to specific problems and/or policy programs (Kickert et all, 1997 b). *Policy networks* are in fact characterised by:

- The interdependence among their stakeholders and the substantial absence or only partial importance of hierarchical relations (more precisely**,** within the network the stakeholders cannot pursue their own objectives but by using others' resources too);
- The high variety and likely large number of stakeholders, each bringing their own set of goals, values, behavioural models and resources;
- The stability (high or low) within time of relations among such stakeholders (shared perceptions, participation models and interaction rules, when repeated over time, develop and are formalised into institutions);
- A down-sized, albeit highly specific, role of the public stakeholders, a role that cannot be replaced by that of other stakeholders, although bound, at the same time, by particular constraints such as legality and a reduced possibility of choice and selection of their own interlocutors**;**
- The presence of stakeholders, say entrepreneurial associations, universities, etc., which play a role in pursuing particular objectives, but have neither experience nor specific skills in the management of collective actions and therefore must gain and progressively develop their relational/political know-how;
- The centrality of the interactive processes for the integration of the stakeholders' objectives, perceptions, and resources;
- The centrality of the objective of improving the conditions in which the interactions amongst stakeholders occur, (social capital).

With reference to the management of public utilities, which is a central issue in the most recent studies of Public Economics, the economic literature identifies several benefits deriving from decentralisation such as:

- Bigger opportunities to adapt services to consumers' needs;
- More possibilities to involve citizens in a more democratic approach;
- More responsibilities to local authorities;
- Higher efficiency and effectiveness;
- A better control on public expenditure.

In the field of public utilities, by operating through the so-called territorial and functional *policy networks*, which allow to establish social, economic and political relations for pursuing common goals, the benefits resulting from decentralisation are even more obvious. As to privatisation, it is clear that the relevant policies imply changes in *policy networks* that cause the fragmentation of the *policy communities* in a number of *issue networks*, each one focused on a different aspect of the privatisation policy. Still this confirms that, in such a complex context governance has no longer only to do with the market efficiency, whose failures it is expected to correct, but also with the regulation of the social and political life.

This is why we talk of *policy networks*, of the central role played by the integration of these elements and of the importance of attaining an improvement in the conditions in which the interactions amongst stakeholders occur (social capital).

At a first approximation, and in very simple terms, the *policy communities* of the various sectors could be thought of as made up by civil service officers, business workers, potential buyers of businesses and competitors, in addition to the same government officials and public administrators (regulators) in charge of governing social and political life. The *issue networks* instead are made up of all "citizens" in their various societal and professional roles, and often also by "regulators" belonging to sectorial or inter-sectorial Authorities (Pedersini, 1999). These institutions, through which this variety of subjects become operational, are worthwhile considering as they seem to be placed in a *meso-dimension* (intermediate dimension) that occurs between two top-level entities: the State and the community, equally involved in the operational context of the public utilities.

These meso-dimensional bodies are referred to as intermediate institutions with the precise purpose of highlighting their role of connection and mediation between the State and the community. In these intermediate institutions, personal and particularistic relations co-exist, generating a mixture of flexible regulations that enable the same institutions to act as powerful mechanisms to stabilise and mitigate the tensions likely to occur between the micro and the macro level (Arrighetti & Serravalli, 1999).

The presence of these intermediate institutions makes it possible, on the one hand, to control, rationalise and plan the reproduction processes of economic, social and political relations on a wide scale (national and international), and from the other, to guarantee margins of efficiency to the operational contexts within which stakeholders act.

The network of interconnectivity created in a perspective of governance through these intermediate institutions becomes particularly obvious and complex within the operational system of public utilities.

Now, considering these concepts as key elements, it seems appropriate, at this point of our analysis, to focus on the evolution of the various forms of management of public utility services and highlight, in terms of governance, their main strengths and weaknesses.

2.1 Forms o management of public services, between regulating and privatising[2].

Until a few decades ago, within the theoretic debate on the management of public utilities, it seemed that a fundamental conceptual distinction had been accepted between the public authority's decision to intervene in providing a service of public utility to correct a *market failure* and the decision by the same authority to directly take on the task of supplying such service through public owned facilities. The rationale of such considerations was supported by two key elements:

- The social importance of services in question and, therefore, their universal access and security supply, which made it mandatory to guarantee them even when production costs exceeded profits;
- The poor self-dependence of the market that in the presence of *market failures* (natural monopolies, externalities) called for a corrective action on the part of the State which could be both in the form of issuing laws for private businesses (as in the case of the US) or in the form of a the direct management of the service by the State, which could even become the owner of the service itself (as in the case of Europe) (Bognetti, 1999).

At the end of the 90's, however, the situation seemed totally unsatisfying. In fact, the production organisation of public utility services was characterised by:

1. A total lack of competition, both in the market and for the market, with a resulting productive inefficiency due to the inability of containing costs;
2. An inefficient price structure in terms of allocation;
3. High prices and poor quality for users/consumers.

Therefore the confidence in the State's entrepreneurial capabilities seemed to have been eroded. The mainly criticized elements were the public company's level of efficiency, the fact that the Government's action wasn't necessarily in the public interest and the limits imposed by the traditional systems of regulations to the development of competitive mechanisms, to the detriment of efficient results.

This was why the awareness of the nature of public assets of some services, together with the unavoidable necessity to supply them effectively and efficiently, determined the emergence of new processes including the privatisation and the liberalization of the public utilities[3].

The initial realisation and belief that the Public Subject should totally abandon its production role to take on, instead, a strong role in the governance and regulation of services, gave rise to variegated set of forms of action. The need to "deregulate" wide areas of management to give way to the forces that spontaneously act upon the market has become more and more felt.

On the basis of this principle, once freed of its managerial and organisational production role, the public sector can, in fact, devote itself to pursuing collective interests with a higher level of motivation, adopting suited instruments of regulation, according to the classic theory of economic regulation (Boitani & Petretto, 2000). On such grounds, the choice of the most appropriate instruments to start privatisation processes seems rather challenging. In fact, the set of the issues resulting from supplying public services and from formulating public policies gives place to sensitive processes of *local governance* as well as to a set of decisions with a direct effect on the well-being and life quality of the community. In more general terms, each activity aiming to organise the market and to establish a better allocation of resources for the community's benefit runs the inevitable risk of not being able to fulfil the needs of all users since competition, which is peculiar to the market of public services, privileges some users while damaging others, thus creating harm to the socio-economic balance of one area.

In a market economy the differences between different public services increase when the institutions tend to guarantee minimum levels ,but the market is not strong enough to cope by itself, with only partial support from the public system.

Pursuing general interests implies therefore the obligation to guarantee a service accessible by anyone, in terms of both quality and prices, regardless of the different economic situations.

Hence the notion of "competition" could play a role in that it may account for an alternative to the intervention of the only public subject, relying on the fact that competitiveness between companies stimulates the production of better services. At this point it would be expedient, however, to emphasise the double aspect of competition.

For within the mechanisms that regulate competition *on* the market, the principle prevails under which all operators should undertake to be competitive with each other and under which special rights destined to a restricted number of operators or to one only company apply only exceptionally. In this case, the access to the market is completely free. The positive outcome is represented by the impossibility for single operators to register extra-profits, ensuring an efficient allocation of resources.

By contrast, the most spread competition system *for* the market resorts to the principle of competitive bidding in a view to selecting managing agents with specific requirements and characteristics, both on a technical and economic level. This seems therefore even more interesting from an application viewpoint, since it identifies itself with the possibility to “offer as a price” the entire market, while companies compete for the right to supply a service in temporary monopoly conditions.

In the absence of appropriate requirements on the part of the operators, even within a system of full competition for the market, the risk remains that contracts cannot be given out. This determines, as a consequence, an intermediate situation where local authorities can intervene i) by designating one or more operators on which they impose strict constraints and/or ii) by applying a shared clearing system and/or iii) by relying on public funds.

We must therefore avoid eager optimism in evaluating the results obtainable from the application of tender mechanisms, since we cannot under-evaluate the difficulty of defining a univocal model to apply to all services or even to all the production phases of a specific service, on the consideration that the entrepreneurial nature does not properly apply to any area of activity, but it should rather be a characteristic of the service itself, and of the subjects providing it. For instance, the production conditions characterising water supply are very different from those of gas or electricity services. The characteristics of the various phases of production of the former (water resources) are only hardly discernible in terms of defining market policies, whereas in the case of the latter the clear-cut separation of the productive process and the features of the individual phases is such that larger margins are left to resort to the market of public utilities.

The approach that seems to be more appropriate is that of evaluating the conditions of applicability of one or the other criterion of intervention case by case, according to the specific configurations of the service and of the market.

Hence, there are no services, activities or functions destined, by their nature, to be entrepreneurial or forcedly predisposed to certain mechanisms. It is rather the stakeholders' choices, both institutional and economic, that favour the involvement of entrepreneurial subjects in specific areas of activity.
All these variants focus draw our attention on an in-depth analysis of the subjects involved in the post-privatisation "market construction", with a special focus on the multiple factors involved, including incentive mechanisms, the control of the management activity, the levels of interest, and the resources of institutional kind.

2.3 Theoretical models of public utilities regulation

In order to identify and measure the quality of the governance of public utilities it seems appropriate to analyse three different types of regulations: the first is based on the model of participation of the companies in the competitive tenders; the second relates to the project financing strategy; the third focuses on multi-services companies.
In Italy one of the most spread modality of operation of the Local Public Utilities ("SPL", Servizi Locali Publici) at an industrial level consists in commissioning work through tenders, which allows companies to receive the collectable proceeds.
When an industrial type utility utilises a network or trades some of its services for its own operation, there is no public call for tenders because in this case it appears more appropriate to encourage competition in the market among the managing agents involved[4].
The increase in the size of these public utilities has been prioritised to the detriment of competitiveness, which has, no doubt, led the companies to become stronger, protected as they have been by a prolonged monopoly, yet without favouring the growth and consolidation of their entrepreneurial characteristics to guarantee their place on the international market[5].
There is therefore a need to overcome management "in economy" which, in some ways, allows the local authority to keep SMEs under their control. Quite the contrary, it's the responsibility of the Regional Boards, within their own coordination and industrial planning functions, to establish a set of tax holidays and financial incentives to favour the aggregation of small businesses.

This reiterates the importance of the role of local governance that is assigned the task of favouring the privatisation process, in particular in those contexts where the small and medium size of the enterprises slows down the growth of a competitive system.
This also confirms the need to separate the guidance and planning role from the management one which, governed by an agreement, takes place giving out a contract to a managing agent whose relation with the local authority is ruled by a service agreement.
This separation of roles allows the local authority to pursue collective interests through its role of guidance, planning, vigilance and control, while companies, even in presence of public funds, are in charge of both the management and the organization of the services.
In a functional perspective where the cooperation criterion prevails, local authorities, including Regional Boards, take on the strategic task of coordinating the actions undertaken within the territory, orienting them to meet the needs of the consumers.
When calls for tenders are issued, on the other hand, there is a tendency to a *tout court* privatisation in which service agreements rule the obligations taken by the companies, almost depriving local public authorities of their supervision role.
This consequently confirms the need to make a clear distinction between companies and those bodies that are institutionally called to play the role of supervisors, for a better functioning of the services and in order to guarantee what follows:

- Giving out management contracts at prices unquestionably lower than those obtainable through direct commissioning;
- The higher the number of companies submitting a tender, the closer the awarding prices to average costs;
- In public tenders contracts are given out to companies which can count on the most efficient technology at the lowest costs.

Back to the model of competition for the market, supported by the theory of the public services reform suggested by Demzetz in 1968, the principle is stated that it is not indispensable for the State to act as an entity that offers public services and assets. Under the same principle, once the features of the asset in question have been specified, market production is commissioned through a bidding mechanism.
Another widely spread model is project financing (P.F.), a financial tool aiming to encourage the presence of capital for the financing of single projects, often destined to strengthen infrastructure. On the basis of such financial mechanism, the customers,

the sponsors, including the public administration itself, commission a specific subject to carry out a work. The party that is assigned the contract, mostly a project company, is given an exclusivity guarantee which essentially translates into the right to manage functionally and to earn profits from the work carried out, for a length of time that allows the reimbursement of the invested capital (venture capital included) and of the incurred debts. In particular, in the *public utilities* sector, the P.F. utilisation is motivated by the fact that this sector is characterised by levels of low efficiency where implementation, modernisation and development actions require considerable investments hard to be found on the market.

This financial instrument effectiveness lies in the possibility of financing a project rather than one or more entrepreneurial subjects. It becomes obvious that the P.F. key element is based on the subdivision and allocation of the project risks among more than one subject interested in the project implementation.

The peculiarity of these operations is to be found in the negotiation process itself, which revolves around the sharing of such risks, whose size is proportional to the total value of the project as well as to its likelihood to be successful.

The P.F. operations are therefore rather complex, difficult, long and more expensive than a traditional financing process, but in many cases they represent the only possible way to carry out a *capital intensive* project.

The subjects involved in the P.F. are:

- *The sponsor:* the subject having an interest in carrying out the project and therefore promoting the initiative;
- *The project company (SPV):* an *ad hoc*-established company. The so established company fulfils the sponsor's needs to draw a clear separation between his own activity and the activity of the project company;
- *The financial advisor:* playing an essential role in view of the participation of this advisor in the drawing up and monitoring of the economic and financial plan of the project;
- *The financial arranger:* generally a financial institution whose aim is to organise and obtain the credit facilities needed to carry out the project;

In particular, we must nevertheless emphasise that the subjects involved in a *project financing* operation try to constitute forms of partnership where the risks are only limited to the amount of shares held by each party, often in the form of a consortium of authorities, of public utilities companies (special or public limited companies), of public/private entities as a partnership or a joint venture.

Finally, we have seen how the P.F. represents a type of financing applicable to specific investments and can be, as already mentioned, implemented in the water sector both for treatment and distribution.

In reality, by taking as specific reference the Italian situation, the water sector in particular, with its poor networks and heavily inefficient infrastructure, is the area where *project financing* could play a key role as a financing channel.

In view of the integration of the demand-management based system, a *multi-utility* system has developed, which makes use of the new managerial culture by adopting a logic where infrastructure is connected to territory, in an organised set of ecological networks and territorial systems.

The process of services externalisation that, as discussed so far, is at the basis of the SPL managerial models change, is marked by two phases:

- The separation of roles, the institutional role of control and supervision is completely separated from the organisational and managerial role;
- The privatisation determining the transfer of the ownership of the shares to private companies.

In Italy, in particular, the offer of public utilities in terms of services tends to turn into a *multi-utility* structure since it covers at the same time the distribution and sale of gas, electricity and water, the removal and disposal of waste and the supply of non-exclusively industrial services.

The idea of organising the distribution and sale of different services at the same time makes it possible to exploit the economies of scale resulting from widening of the productive and organisational structure. It also facilitates technological innovation thanks to the costs complementarity and to the same productive and industrial characteristics deriving from such merging.

The *multi-utility* organization, according to part of the economic theory, determines multi-product monopolies offering the advantage to manage users jointly, while in terms of productive and industrial efficiency this offers new opportunities that facilitate the adoption of new technology.

We must emphasise the economic weight that *multi-utility* companies gain since they reach dominant positions in the market, while it seems more appropriate to try and

aim towards the opening to foreign markets, facilitated by the company "strengthening" operation resulting from the merging.
The shared control of the *multi-utility* companies should be given to the private sector, in order to release local authorities for good, depriving them of their managerial role which, as already said, is not peculiar to public administration.
In order to distinguish the types of advantages that *multi-utility* companies have, we can say that:

- Their advantages can be considered as legitimate since the economies of scale allow them to submit tenders with certainly more competitive prices;
- Their advantages can be considered less legitimate since, thanks to the experience acquired in previous tenders, when submitting new ones they are at an advantage.

Now, after having explored some of the most widespread *public utilities* management models, by way of illustration, we can focus our analysis on two cases of "*decentralizing governance*" on the European scale, providing some details of the adopted management systems for a first general identification of the various stakeholders involved and of the relations existing among them.

2.4 The continental system and the Anglo-Saxon system: two cases of "decentralizing governance"

Two are the cases of management of public utilities that have been taken into account: the French and the English models, since they mirror the structure of two typologies considered to be reference systems for all the operational contexts, thanks to the level of maturity they have gained:

- The "*continental system*" characterised by a still strongly integrated role between Government and public companies, with a management system essentially conceived as a form of control exerted by the government bureaucracy;
- The "*Anglo-Saxon system*" in which the Government is "separated" from the industry, while the management role is assigned to one or more independent bodies.

The continental system has been adopted in France in the water supply sector. To this purpose, we see that there is no Water Ministry in France and there are no regulators for any public utilities, instead each public utility has preserved its sector responsibilities in terms of water management (agriculture water management, drinking water management, etc.). The coordination among all Ministries occurs through the Water Inter-ministerial Mission (MIE) whose task is to keep the Government informed on all projects related to water resources management. It is formed by the representatives of all Ministries competent in the water resources management field.

In this management model, the Prime Minister asks the Ministry of the Environment to coordinate the various public subjects operating in the water sector. The same Ministry establishes within itself the Water Management Office, whose task is to guarantee the application of the Water Law issued in 1992, and to enforce the rulings of the Water National Committee (Guffanti & Merelli, 1997).

This Committee is composed of private subjects (consumers associations, users' representatives, sector operators), public subjects (local authorities, basin committees and public administration representatives) and a consulting body.

At an administrative level, it is important to recall that in France the territory is divided into six hydrographical basins, and in their domains there are two organisations: the Basin Committee and the Water Agency.

The first, so-called "water parliament", is essentially the Water Agency's consulting body, composed of sector experts, consumers, etc.. Besides, it appoints the eight consumers' representatives who seat in the Water Agency Board of Directors.

In each one of the six hydrographical basins, they have created a Water Agency acting as an administrative public institution, with its own statutes and its own financial autonomy. Each Agency is managed by a Board of Directors composed of eight representatives from local communities, eight consumers' categories representatives, eight State's representatives and one Agency staff representative. The Board of Directors Head and the Agency Director are appointed by the Government. The Agencies coordinate the allocation of funds in order to meet the objectives set by the Basin Committee and to carry out studies on the state of water resources.

Now, all these data indicate a still meaningful Government's presence in the sector operational dynamics.

In the second model considered, the *Anglo-Saxon system*, adopted in Britain, due to the past privatisation of public Water Authorities, the system of that regulates public utilities takes place through “offices” such as the Office for Water Services (OFWAT), that represent Authorities independent of the Government.

These “offices” structure, alike the OFWAT, envisages the involvement of many stakeholders which are chosen among all the operators involved in the management of the service in question.

In the OFWAT case, we can observe that it includes in its staff the Directors of the 10 Water Voice Committees (e.g. CSC = Customer Service Committees), which are the bodies (independent of water companies) representing consumers’ interests. Their composition is very interesting from a governance viewpoint, since it is constituted in percentages of users’ representatives, academic community representatives, water sector experts, subjects belonging to commercial and industrial institutions.

We have to consider as well that the OFWAT costs are completely covered by water companies through an annual tax calculated on the basis of the turnover obtained only from the regulated activities (drinkable and waste waters).

The OFWAT General Manager (GM) regularly consults the Water Voice Committees in relation to each political decision to be made which could have a direct fallout on the users. To this purpose, the same OFWAT Charter contemplates a substantial exchange of periodic information between the GM and the Commissions (Passerelli, 1996).

Unlike the French model, we can observe the existence of a higher degree of joint participation among stakeholders, which shows Britain has reached a more advanced stage in the implementation of a good governance. To this purpose we must, however, emphasise that the circumstances are different in the two countries and that this model is not likely to apply successfully to the realities where the developmental and educational course of the Government bodies has not been and could not be the same in the future.

Conclusions

From what said so far, it obviously appears that in order to reach the priority aim to which any kind of management has to aim, namely collective well-being, there are no standard formulas, nor are there predictable solutions to pursue. In the public utilities case we rather perceive the need to activate real cooperation mechanisms through the implementation of a “good” governance based on the actual territory needs. In the economic development and growth processes, in fact, it seems that a fundamental role is played both by the territory, in the narrow sense of the word, and by the consolidation of confidence and common value sharing among companies, economic stakeholders, institutional stakeholders and the local communities.

It seems clear that the establishment of managerial models centred upon competition, more than once mentioned as a consequence of new processes involving public utilities, calls for industrial policies focused on *governance* substantially meaning, in this case, a "joint participation mechanism" aiming to the definition of the roles and prerogatives of the different subjects involved in the service management, i.e. the subjects of local authorities, company administrative and management bodies, and all the other stakeholders (such as consumers' associations, lobbying groups, unions, suppliers, citizens-service customers, etc.). It also calls for the setting up of instruments and mechanisms in order to support the integration between local authorities and associated companies.

In this case the objectives set are pursued mainly through infrastructure and market synergisms to satisfy the need to develop managerial network systems according to the relational systems theory, partially borrowed from organizational economics (Caruso & Pace, 2003). The network logic appears particularly suited to the management of high quality public services where the fundamental elements are the external relations with all subjects participating in the processes of co-production of local public services, besides a heritage of quality internal knowledge and innovative skills in the production of services.

NOTES

[1] By evidence, decentralization relates to the role of, and the relationship between, central and sub-national institutions, whether they are public, private or civic.

[2] The word regulating is used with reference to the economic regulation of the public utility services market, with particular reference to the water sector in which the economic regulation is made more complex by the presence of a natural monopoly.

[3] The necessity of proceeding to a reform of the local public services sector was no longer postponable since the same local governance processes couldn't do without efficient services anymore on the territory. The risk of institutional confusion fuelled the overlapping and mixing up of incompatible objectives, such as profits increase, costs containment and consumers' protection. The agency in charge of the service was unable to keep management control and did not have the tools required to to guarantee the economic operation of services.

[4]There are a number of EU directives related to market liberalisation to which we can add the "Legge Bassanini" focusing on administrative federalism, i. e. the reforms which have redefined the

characteristics of local and regional finances, and finally the amendments to Title V article of the Constitution.

[5] The Italian Houses of Parliament have recently approved a Decree Law that envisages that ct companies having direct commission can also submit a tender. We must recall that, in order to increase the size of companies and guarantee an efficient productive scale, it was possible to resort to direct commission extension, exerting the right for a transitory regime. On the basis of this transitory regime, the contract started the users' number was sufficiently high and when private capital reached 40% of company capital.

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