Governance and Accountability for Italian Listed Public Utilities Companies

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Abstract
The present paper deals with a critically Italian question with regard to the actual debate about public utility sector. The paper tries to point out positive effects that a suitable accountability system can produce in the management of local public utilities in order to bridge the gap between Public Utilities Companies and their stakeholder. In the paper the policies, the strategies and all accountability tools of some Italian listed public utilities companies are analyzed.

The aim of the paper is to highlight the different rules and regulations in European and Italian system proceeding with a comparison between the Italian definition of Public Utilities and European legislation too. The purpose is to define roles and responsibility in managing Public Utilities Companies.

Keywords: Public Utility, Italian listed PUs company, regulation, governance, accountability.

JEL classification: L32, L97

Introduction
In the Italian context, since the beginning of XX century, Public Utilities (from now on PUs) have been always provided by State-owned organisations. The main purpose of Public Administration (from now on PA) is to safeguard the health and the welfare of his own citizens. PA is responsible to take care of specific PUs considered as merit goods (Saves, S., 2000) because defined, from a social, economic and political point of view, as services (Borgonovi E., 2005) of collective interest. According to business management literature (Elefanti M., 2006; Mulazzani M., Pozzoli S., 2006), PUs are not "a rigid economic category or the same thing in different local communities", because their content changes and develops over the years. Even from a legal point of view, they have gradually taken
a different meaning that is "switching from the traditional concept of public service of national legislation to services of general economic interest in European Community law", as set in the European Union Treaty, in the “Libro Verde” (2003) and finally adopted in the provisions of European Constitution (2004). In accordance with the proactive European Union action, the Italian legislation divides in economic and non-economic PUs. The only criterion able to distinguish economic and non-economic PUs is the presence or the absence of a relevant market or a profit target. The current debate about the definition of PUs is in the agenda of the European and the national legislators because it is necessary to agree on the policies to manage and coordinate activities and to define different grades of responsibility for each level of government (Ricci P., Landi T., 2009; Caringella F., Giuncato A., Romano F. 2001). The PUs are the “hauling factor” (Amato G., Garofoli R., 2010) of local and national development in term of added value and growth.

This is the reason why regulation regarding public utility sector are continuously reformed in accordance with the directions (laws, decrees, orders) issued by European Union. The present paper has the follow aim: after presenting the new framework of Italian Public Utility sector with a brief presentation of the most important national laws and European regulations about PUs, the relationships between accountability systems in the listed Local Public Utility Companies and PU performance, are then commented. Such a conceptual framework helped us to outline the corporate governance model adopted by these specific kind of PUs Companies looking to the implementation of a suitable accountability system and looking at how they are conformed their behavior to European provisions. Although such research questions are part of a wider research in which we would like to identify the best practice and to present a general model for the others PUs Companies. This paper partially addresses them, focusing on the accountability system in some listed PUs Company. This is due to the fact that this research is currently at its initial stage.

1. Reforms in Public Utility sector: progress report

In the last three decades, new paradigms emerged to transform PUs into more innovative and modern service delivery organisations with the aim of improving their operational and financial results. Such modernisation programmes have been particularly influenced by the New Public Management (NPM) approach in which objectives have been mainly focused on reshaping the boundaries and responsibilities of States, on introducing accountability and performance measures, promoting citizen-centred Public Utilities and favouring competition in the public sector (Pollitt C., Bouckwart G., 2000; Hood C., 1995). In the Italian Public sector system we can distinguish three different kinds of PUs as showed below.
With the affirmation of the NPM paradigm within the European Union, a slow privatization process started in Italy. In order to enhance public service delivery, it has been often suggested to involve the organization of the private sector or to introduce governance models typical of a private sector business.

Private investors have been invited to participate in PUs to boost competition and to improve performance. Furthermore, a change in the legal framework of public Utility has been introduced. New legislation has been issued in order to distinguish political from managerial roles and responsibilities with relation to the ruling of PUs. Before such reforms, PUs Companies had the status of “Azienda Municipalizzata” (or Municipal Company), an autonomous organisation created by a Government decree, with a Board of Directors appointed by the owner (often the Municipality). Under Article 22 of Italian Law n. 142 of 8 June 1990 on the organisation of local authorities municipalities are to provide for the management of Public Utilities involving the production of goods and the performance of activities designed to achieve social purposes and to promote economic and civil development of local communities. Furthermore, Article 22 provides that municipalities may ensure the performance of these services on a work-and-materials basis, by way of concession to third parties, or by having recourse to special undertakings, non profit-making institutions or companies in which local public authorities hold the majority of shares.

After the 1990s many different proposals were made by Italian and European legislators to change the award of public supply contracts and to switch from Municipal Company to Companies whose partners should be chosen by open
selection among public and private subjects with certain qualifications and professional skills. With the famous Teckal Judgment (Sentence C-107/98), the chosen option was the open selection. Direct award by Municipalities (Local Authorities) to Municipal Company only allowed when the local authority exercises over the newly sector formed partner a form of control similar to that exercised over its own departments and, at the same time, the new player should carry out the essential part of its activities with the controlling local authority or authorities (in house providing). Around the year 2000s, such organisations have been transformed into joint stock companies (PLC) but the exception is becoming the rule in the praxis.

Legal Status of PUs Companies

<table>
<thead>
<tr>
<th></th>
<th>1997 (%)</th>
<th>2000 (%)</th>
<th>2003 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal company</td>
<td>15</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Contracting out</td>
<td>21</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Consortium</td>
<td>18</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>Special public corporation</td>
<td>33</td>
<td>23</td>
<td>9</td>
</tr>
<tr>
<td>Joint stock company</td>
<td>9</td>
<td>23</td>
<td>44</td>
</tr>
<tr>
<td>Other legal arrangements</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Reference: VALOTTI G., in ELEFANTI M. (a cura di), L’evoluzione delle imprese pubbliche locali, 2006

The last but not least important legislative reform was issued on November 2009 with Law n. 166. Under Article 15 (Adjustment to Community guidelines in local utility economic services), comma 2, the award of public supply contracts is provided:

a. in favor of contractors or companies, regardless of their legal status, by established public competitive procedures, following the European Community principles mentioned in the Treaty;

b. to mixed public-private companies in which the private partner selection takes place through public competitive procedures (open selection), following the principles mentioned in subparagraph a). The competitive procedure should establish, at the same time, membership qualifications for private partners and the allocation of specific operational tasks to them in managing service. Their share should be at least 40% of the equity capital.

This is the new rule but there is the exception to it, under the comma 3: in exceptional situations, where peculiar economic, social, environmental and geomorphological territorial features do not permit a useful and efficient set up private or mixed companies, the law allows to award of public supply contract to municipal companies, respecting the above-mentioned “in house providing” principles (Teckal Judgment). It is necessary to write down account about territorial peculiarities to be submitted to the Anti-trust Authority in order to obtain a specific assent.
From this disposition are left out some specific kinds of PUs (railway transport, electricity and gas, chemist shops) and listed Public Companies.

It is due to comma 3 of Article 15, that the exception become the usual procedure followed in the praxis (Bianchi C., Bivona E., Ricci P., Landi T., 2010).

In fact, it has been remarked (Censis 2009) that in most cases, PUs are totally owned and controlled by Municipalities.

**Number of PUs controlled by municipalities**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Trend (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>4,461</td>
<td>4,741</td>
<td>+ 6,3%</td>
</tr>
<tr>
<td>Consortium</td>
<td>2,291</td>
<td>2,365</td>
<td>+ 3,2%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>6,752</td>
<td>7,106</td>
<td>+ 5,2%</td>
</tr>
</tbody>
</table>

*Reference: Ministry of Public Function and Innovation, 2009*

As the Municipal Government owns all shares of such PUs, the city council has the right to appoint the members of the board of directors. According to Censis (2009), although the majority of Italian PUs’ managing directors agreed on the potential benefits of the privatisation reform on PUs performance, but their number is steadily rising.

**Number of Italian PUs managing directors**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>Trend (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>14,111</td>
<td>15,010</td>
<td>+ 6,4%</td>
</tr>
<tr>
<td>Consortium</td>
<td>9,299</td>
<td>9,703</td>
<td>+ 4,3%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>23,410</td>
<td>24,713</td>
<td>+ 5,6%</td>
</tr>
</tbody>
</table>

*Reference: Ministry of Public Function and Innovation*

It has been outlined (Baietti A., Kingdom W., Van Ginneken M., 2006) that it is not sufficient to improve PUs results only by changing the legal status of the organisation, from a “statutory body” to a limited corporation totally owned by local, provincial or governmental institutions. To some extent, this policy has indeed contributed, to amplify complexity and to generate overlaps between key actors interacting with PUs. In fact, although limited liability corporation forms often allowed private companies to keep a number of key roles, interests and responsibilities (related to ownership, management and services provision) separated, in a PU – on the contrary – the adoption of such governance models did not guarantee a proper isolation of the ownership from “external” interests mainly oriented to build political consensus (Shapiro C., Willig, R. D., 1990). At the end of 2008 public regional participations were distributed as follows.
Looking at the tables, it is possible to say that in order to improve PUs’ performance, it is not sufficient to make significant progress in PUs’ organisation per se, but it is necessary to introduce new policies aimed at changing the culture and at increasing operational taking into account the effective needs of citizens.

2. Listed Public Utility companies

The most important effect of the reforms has been the extended process of industrial reorganization of Public Utility sector. During the last two decades Public Utility sector has been characterized in aggregations, mergers and agreements to fulfil the rising citizens requests. On the other hand there is still widespread overcoming mono-sectorial arrangements prevailing in the past while a strong affirmation of multi-utilities companies is coming. In this paper the analysis is focused on listed multi-utilities Public Companies with regard to compare their model of government. The aim is to highlight the usefulness of suitable accountability system in order to communicate the added value created and results achieved.

Is due to high cost of infrastructures and the complex management system of PUs that the privatization process has been disregarded by private and public partners (natural monopolies). So many local public companies adopted strategic solution looking at reduce the high cost through product differentiation of PUs.
(water, electricity and gas, environment) in agreement with others close local public companies. The main purpose of these new strategies look at development and growth, is to create “critic mass” in order to profit by economies of scale. In this way they may become the reference players in local and national market, building customer loyalty and start a process of listing of their own shares on the Stock Exchange.

The advantage of become listed PUs company is to benefit from specific regulation about them. Under the Article 15, comma 8, Law 166/2009, provides the salvation of direct award only if on 1st October 2003 public companies already listed and those their control is regulated under the Article 2359 of the Civil Code, can therefore continue until “the deadline specified in service contract provided”.

The limit is they have to achieve a process of gradual opening to the participation of private partner in the equity shares. The first deadline is June 30th if public share will be still more then 40% of equity shares; December 31st if the public share will be more then 30% of equity. The first deadline is June 30th if public share will be still more then 40% of equity shares; December 31st if the public share will be more then 30% of equity. Even if, the trend towards liberalization, deregulation and privatization of PUs is growing, the network infrastructure used to distribute most utility products and services has remained largely monopolistic. On the other hand, the persistence of public partners is necessary to safeguard the citizens public interest, because to list share on the Stock Exchange you have to assure high profit and revenue looking at long term economic-financial equilibrium. With regard to economic growth, listed public companies can choose between two different macro-categories of development strategies (VALOTTI G., 2006):

- **Inactivity growth**, in which case the management goes on only by the force of the habit and the force of the market;
- **Pro-activity growth and development**, where is the management to influence the market and the sector strategy through different forms of economic integration with other close companies (mergers, strategic aggregation and agreements, geographic integration).

The logic of strategic aggregation could be find in some important factors related, for example, to the geographic contiguity in term of economic and political affiliation and similar culture; the large-size companies included in the aggregation allow to share the high managerial and infrastructural costs and to increase the confidence and loyalty with clients improving on public products and services supply.

In order to profit by aggregation strategy is important to remark the *turn over* and the *earning performance* for the original companies that can take advantage of easier access to the credit and of the smaller price of money. The successful of these strategies and the benefits by listing shares on Stock Exchange, are closely linked with a high level of *commitment* towards their stakeholder, clients, employee and suppliers. In compliance with all these conditions, business aggregation and listed share in the Stock Exchange can generate positive effects on the entire local and national economy.
3. Case study. Four major Italian listed PUs Companies: a comparison

The slowly process of integration among local PUs started at the end of 1990s when were set up the most important multi-utility Companies. The sample has been chosen looking at geographic contiguity among four largest important listed PUs Companies (Hera, Enìa, Iride and A2A) within the universe of eleven Italian listed PUs Companies. The affinity in supplying PUs (see table 6) has been another important discriminating factor in the selection of the sample to analyze.

Public Utilities supplied

<table>
<thead>
<tr>
<th>Listed public companies/ utility</th>
<th>Water</th>
<th>Energy</th>
<th>Environment</th>
<th>GAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>HERA</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>IRIDE</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>ENìA</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>A2A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
</tbody>
</table>

Reference: Our illustration

The case study, in this initial research stage, aims at compare the most important indicator of the four listed PUs companies chosen. We would like to try to point out if these companies could be defined accountable and responsiveness toward their stakeholder, client/citizens, employee taking into account some specific documents and tools that allow us to measure the accountability degree achieved.

The first company, in the sample, listed in the Italian Stock Exchange has been Hera Holding Spa in 2003. Hera Holding has been funded in 2002 by the union of eleven PUs Companies in the Emilia Romagna Region. It gives work to six thousand employee supplying PUs in the area of Bologna, Ravenna, Rimini, Forlì-Cesena, Ferrara, Modena and Imola. Enìa Spa is an Italian multi-utility and provides utilities (gas, electricity, water, waste and district heating) in Reggio Emilia, Parma and Piacenza area. The Holding was set up by merger among AGAC of Reggio Emilia, Parma AMPS and TESA Piacenza in March 2005. Iride is a multi-utility company in the North West of Italy that was set up by merger between Amga AEM Torino and AMGA Genova in 2006. Iride operates mainly in the energy sector (hydropower generation and cogeneration, district heating, electricity and gas marketing and distribution) and in integrated water system. The area served by IRIS are Piemonte and Liguria Regions. The last one of the analyzed listed PUs Companies is A2A that was funded in 2008 by merger between AEM SpA Milano e ASM SpA Brescia with the contribution of AMSA and Ecodeco. The most important indicators from each listed PUs are summarized in the table 7.
Some general indicators (2009)

Table 7

<table>
<thead>
<tr>
<th>General Characteristics</th>
<th>HERA</th>
<th>ENIA</th>
<th>IRIDE</th>
<th>A2A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population served (thousand)</td>
<td>2.000</td>
<td>1.470</td>
<td>2.273</td>
<td>-</td>
</tr>
<tr>
<td>Province served</td>
<td>7</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Numbers of Board of Directors members</td>
<td>18</td>
<td>11</td>
<td>12</td>
<td>8 (CdG)</td>
</tr>
<tr>
<td>Numbers of employees</td>
<td>6.481</td>
<td>2.346</td>
<td>2.571</td>
<td>8.930</td>
</tr>
<tr>
<td>Average Revenue</td>
<td>4,204</td>
<td>999</td>
<td>2,195</td>
<td>5,910</td>
</tr>
<tr>
<td>EBIT</td>
<td>291</td>
<td>82</td>
<td>231</td>
<td>609</td>
</tr>
<tr>
<td>Consolidated Balance sheet</td>
<td>Si</td>
<td>Si</td>
<td>Si</td>
<td>Si</td>
</tr>
<tr>
<td>Governance model</td>
<td>Traditional</td>
<td>Traditional</td>
<td>Traditional</td>
<td>Dualistic</td>
</tr>
</tbody>
</table>

Reference: Our illustration by website database

Due to recent financial and economic recession, there is not a significant economic results growth. To get round this difficulty, on the last 25th of May, Enia Spa was incorporate in Iride Spa to set up a new listed PUs Company called Iren Spa.

4. About a proposal reflections and considerations

A suitable accountability system may improve managers social responsibility and responsiveness toward their stakeholders allow them able to evaluate the actions taken and results achieved. Companies who work in PUs sector, accountable behavior is a natural implication. According to some authoritative scholars (Mulgan R., 2000; Parkers R. W., 1993) the term public accountability may be applied to any entities where there is a responsibility to the public. The quality and the development of Local Community depend on the accessibility of products and services supplied by PUs Companies. For listed PUs Companies to be accountable means set up costumer’s loyalty and investors’ confidence in put their money in a new business (invest in shares).

According to some Italian authoritative doctrine (Cardillo e., 2008; Ricci P., 2005; Pulejo L., 2005) the term accountability, widely used in recent years, draws the firm ability to permit stakeholders to assess firms performances, in order to adequately empower business decision makers. Accountability evokes a set of ideas closely related to each other:

- Autonomy and freedom of government and company management operating in a market economy;
- Corporate social responsibility towards its stakeholders;
- Corporate responsibility and accountability towards results achieved.
The conditions in which assessments are produced depend on the quality of the Company accountability system. The accountability degree is measured by (Ricci P., 2010):

1. a clear and thorough programming process;
2. a clear definition of internal and external duties;
3. a suitable accounting system;
4. an effective internal system for control and evaluation;
5. a periodic informative activity about company management;
6. the use of benchmarking procedures;
7. the use of up-to-date technology in the communication process.

Thinking to an extended accountability system it includes all tools and documents that provide information and comments about company performance in different ways and with a different degree of insight and detail such as balance sheet, period analysis, periodic reports, budgets over one or more years, financial and economic programmes, strategic and executive plans, social balance. Only an intense stimulus towards a suitable accountability system may actually improve the company’s network of relations and to boost its reputation and credibility.

To evaluate the degree of accountability, it’s possible to use a scale of values for the factors described above.

1. **A clear and thorough programming process**
   Using a scale from 1 to 5, we can assign 1 to companies with the lowest planning ability and the smaller communication tools and 5 to companies with the highest planning ability and the larger communication tools.

2. **A clear definition of internal and external duties**
   Using the same scale from 1 to 5, we can assign 1 to companies with short system of duties definition and lack credibility in their own actions, while we can assign 5 to companies which develop and enforce their specific duties at all levels of the hierarchical organizational structure.

3. **A suitable accounting system**
   On a scale from 1 to 5, we can assign 1 to companies with a poor accounting system and few financial reporting document addressed primarily towards internal communication, while we can assign 5 to companies which have an advanced reporting system with innovative tools of social and economic communication.

4. **An effective internal system for control and evaluation**
   On a scale from 1 to 5, we can assign 1 to companies without any degree of control and internal evaluation system, while we can assign 5 to companies with dedicated internal audit function through tools and specialized staff.

5. **A periodic informative activity about company management**
   From 1 to 5, we can assign 1 to companies where any form of communication and comparison between operational and management is provided, while we can assign 5 to companies which have an extraordinary commitment to management information and check the actions implemented.
6. **The use of benchmarking procedures**

From 1 to 5, we can assign 1 to companies which haven’t any responsibility about their performance and don’t measure their results, while we can assign 5 to enterprise which consider performance measurement a necessary priority and compare their own performance with the *best practices* of other leading companies in the relevant market.

7. **The use of up-to-date technology in the communication process**

In a range from 1 to 5, we can assign 1 to companies which have only few instruments of communication and we can assign 5 to companies which have sophisticated and appropriate tools and technological systems to communicate information to internal and external stakeholder.

Companies with higher rating on these factors should match the best processes of assessment and accountability, increasing internal levels of trust and cooperation and implementing a network of relationship with their own stakeholder. An accountable company is therefore a company responsible and transparent towards its stakeholder, clients/citizens and employee about undertaken actions and achieved goals. Accountability is a strategic action to promote market development and growth of the environment in which the company operates. To measure the degree of accountability in the listed PUs Companies analyzed in our sample, we show, in the table 8, all documents and tools that companies have set up to improve transparency and confidence in the environment in which they operate.

**Tools measuring accountability degree in listed PUs Companies**

<table>
<thead>
<tr>
<th>HERA</th>
<th>ENÍA</th>
<th>IRIDE</th>
<th>A2A</th>
</tr>
</thead>
<tbody>
<tr>
<td>A clear and thorough programming process</td>
<td>TQM</td>
<td>CSR</td>
<td>Budget</td>
</tr>
<tr>
<td>A clear definition of internal and external duties</td>
<td>Job description</td>
<td>Organizational structure</td>
<td>Disability management</td>
</tr>
<tr>
<td>A suitable accounting system</td>
<td>Bookkeeping</td>
<td>Cost accounting</td>
<td>Balanced scorecard</td>
</tr>
</tbody>
</table>

1 In accordance with the Code of Listed Practice issued by Italian Stock Exchange in 1999 and revisited in 2002.
**An effective internal system for control and evaluation**

- HERA: Internal audit
- ENIA: Internal audit
- IRIDE: Internal audit
- A2A: Internal audit

**A periodic informative activity about company management**

- HERA: Information service
- ENIA: Periodic reports
- IRIDE: Periodic reports
- A2A: Sustainability report

**The use of benchmarking procedures**

- HERA: Performance indicators
- ENIA: Performance indicators
- IRIDE: Performance indicators
- A2A: Performance indicators

**The use of up-to-date technology in the communication process**

- HERA: ICT
- ENIA: ICT
- IRIDE: ICT
- A2A: ICT

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**Reference: Our illustration**

It should be stressed that, given the complexity of the sector analyzed (Public Utility Sector), the present paper has tried to point out how a companies that want to become large, in term of improving relationship in the external environment and outcomes on the reference market have to adopt an accountable behaviour. After this first research stage, we would like to check the best practice into a more extended sample of PUs Italian Companies. The aim is to set up a general corporate governance model that other PUs Companies can implement to apply the aforementioned reforms. Our proposal looks at not only to induce municipal companies changing their legal status, but change their culture and their behaviour to become accountable, efficient and responsiveness toward citizens (the actual users of PUs).

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3. Borgonovi E., Principi e sistemi aziendali per le amministrazioni pubbliche, Egea, Milano, 2005