

Co-governance and co-production: the public-private co-enterprise as a market-oriented management system for the provision of public services.

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1. Introduction

The evolution of the role of the State and its institutional functions, in the light of the failures of both the Market and the Welfare State, is modifying in a substantial way Government approach towards the possible models usable in order to build relationships with the private actor.

This led to a consequent evolution of public-private partnerships, from contracting-out models towards new forms of integrated entrepreneurship, which demonstrates a better capability to handle challenges and concerns related to delivery of public services.

At a moment when the definition and the components of the “social enterprise concept” are still under investigation, we have to address the issue as to whether this form of entrepreneurship is always the best answer to the requirements of co-governance and co-production of the system as a whole and/or its most important parts.

In a previous work, it was investigated the so called co-enterprise as the collaborative form that, differently from others used in the past, would have the maximum content of co-governance and co-production principles; allowing a greater involvement of the non profit actor in terms of policy formulation and strategic management of public services.

Once assessed the characteristics of the mixed enterprise, this article aims indeed at exploring the opportunities offered by an entrepreneurial model that overcomes the intrinsic limits of collaborative relationships based either on lobbying relations or on the usual exchange between client and supplier.

In particular, here the focus will be on the capability of this form to improve, on the one hand, financial resources accessibility (especially for the public actor) and performances of service delivery (in terms of both processes efficiency and offer effectiveness).

On the other hand, to increase the level of transparency and the quality of interaction among actors, the qualitative and quantitative level of responses to the needs of the community, and to

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activate all communitarian resources, so that to improve processes of “community building” and the quality of public policies.

That means creation of social capital and public value.

2. The co-enterprise in the sector of the public personal services: a step forward from the social enterprise

As already known, what traditional relational forms of contracting-out have in common is the fact that the relationship between government and the NPO basically fits a supply-contract.

The underlying logics is indeed that of the “contracting-out”, so that the public institution decides to out-source the production of public services, while remaining their holder, rather than producing them in-house.

Undoubtedly, one of the main advantages of out-sourcing is the reduction of costs that the instrumental use of non profit enterprises is likely to ensure.

However, the logic of price often presents well-known trade-offs in terms of quality of the services delivered, thus inducing the NPO to invest more in the attempt to contain costs than in the qualitative improvement of the services themselves.

Surely an effort was made to replace the “bearish mechanism” with criteria of selection of the partner that could enable his project skills and his ability to provide high-quality services to be appreciated, as with the “calls for bids” that require the proposal of complete projects.

Because of the precariousness of the relationship and the short-term perspective, however, even in these cases the supplier, once he is selected, is not encouraged to further invest in the development of the services.

In addition, there are the transaction costs¹ typically associated with “arm’s length relations”.

By definition, these are related to the specificity of the assets, to the information asymmetries and to the possible opportunistic behaviours that parts may adopt throughout the relation.

Hence, in the analysis of costs and benefits related to contracting-out practices, we should make a more accurate evaluation of these costs.

Even though the reduction of economic costs is considered a main advantage of out-sourcing, this should be quantified net of the potential additional transaction costs.

¹ Williamson O.E., “*The Economic Institution of Capitalism*”, The Free Press, 1985

In particular, both the government and the non profit organisation are holders of specific and exclusive assets.

As a consequence, a relationship based on mere supply practices will only increase their interdependence and consequently the afore-mentioned costs.

Indeed, the public institution owns the “power” resource, which from the very beginning could posit the NPO in a position of subordination, being the NPO usually endowed with minor contractual power.

The government could therefore enforce unfair practices or tariffs, to which the NPO, in order to preserve the relationship, would have to give in.

Moreover, the logic of supply accentuates one of the risks that Young notices, more in general, in the public-non profit partnerships².

This relates to the potential loss of the NPO’s capability of working in an autonomous way.

If we consider that, especially in Europe, one of the structural weaknesses of the Third sector is the excessive dependence on public financing, we see how this risk can be considered as extremely relevant.

This might become a source of potential opportunistic behaviour on the part of both partners.

From the non profit point of view, then, once the entitlement to the services’ supply is obtained, though without any guarantee of a lasting relationship, the economic logic to be pursued will be a short-term one.

If prices are determined *ex ante*, as usual, this will lead the NPO to save production costs to the detriment of quality.

On the government’s side, then, if it is true that the government is required to maintain a behaviour that complies with the bureaucratic and legislative ties that were determined within the relationship, it is also true that internal inertias of a cultural nature could later arise, thus rendering the relation more complicated.

Out-sourcing the services, which was previously produced in-house, may encounter both political and social resistances.

For instance, human resources that before were involved in the production of services, might be re-employed in other areas against their will, thereby developing a perception of the relationship as a “zero-sum game”.

This would cause the propagation, within the whole organization, of a hostile attitude, that would endanger Public Administration’s correct handling of the relationship.

² Young D.R., “*Alternative models of government-nonprofit relations: theoretical and international perspectives*”, Nonprofit and Voluntary Sector Quarterly, vol.29, n.1, 2000

Furthermore, there are cost determinants that are specifically related to the contracting-out practices between the PA and the private enterprises³.

Amongst these, we can refer not only to the already mentioned “asset specificity”, but also the so called “task complexity” and “contestability”.

The first one concerns the difficulty in monitoring *in itinere* the observance of the terms and conditions defined in the initial transaction.

For instance, we could consider the control that the public institution should keep over the quality of out-sourced services.

The discovery of a qualitative gap, between the planned qualitative levels (e.g. expected quality) and the delivered quality, may only occur *ex post*, with consequent costs in terms of social value that could be very high.

“Contestability”, on the contrary, refers to the presence in the market of current (and above all new) potential suppliers of the Public Administration.

It is clear that a low level of “contestability” increases the risk of opportunistic behaviour, and its related costs.

Very often, when the choice is made to out-source, all these factors are not considered, so that the cost-benefit analysis that both parts make before entering the relationship results distorted.

For the NPO, in fact, the value of the funds received for the services delivered, is often decreased by the damages caused by the “suffocation” of its entrepreneurial capabilities.

This relates to both the financial autonomy, as discussed before, and the possibility to invest in innovation and company growth.

The entrepreneurial capabilities of the Third sector are thus not valued enough, even more so if we consider that, according to the logic of supply, the role of the non profit actor is strictly limited to the mere phase of production.

Even when a greater involvement of the Third sector was sought in the phase of public policies planning, empirical evidence demonstrated that the intentions of lawmakers did not meet the expected results, unless rigorously formalized processes were present.

We can think of the limited participation of the non profit actors in the planning activities of regional authorities (established in Italy by L.328/2000), or refer to international experiences such as that of parents’ co-ops in the field of educational services in Sweden, which were relegated to the role of “service provider”⁴, or the failure of the “community governance” paradigm in England,

³ Globerman S., Vining A.R., “A framework for evaluating the Government Contracting-out decision with an application to Information Technology”, *Public Administration Review*, vol.56, n.6, 1996

⁴ Pestoff V., “Hurdles to the Third Sector and the Democratisation of the Welfare State”, Berna EGPA Conference , Third Sector Group, 2005

with the example of the “Local Strategic Partnerships” within the sphere of “Neighbourhood renewal”⁵ or the CVO sector⁶.

These issues represent the typical factors that determine the difficult choice between “market” and “hierarchy”.

From the public point of view, since contracts are intrinsically incomplete and insufficient to provide enough safety measures to protect the common good, often “forms of private government develop for coordinating and policing the relationship, moving it away from a contract-based agreement and closer to quasi-integration”⁷.

As a result, the idea of “hybrid forms” that might enable the reduction of both the transaction costs connected to the market and the fixed costs resulting from the choice of the hierarchy, begins to emerge.

There are different organizational forms that can be thought of as “hybrid”: networks, alliances, collective trade-marks, cooperative forms, partnerships.

All these have in common not only a certain level of investment in “mutual dependence”, but also the sharing of risk in handling uncertainty.

The conditions for the functioning of such forms are, *in primis*, the formal definition of reciprocal obligations (legally binding contract), followed by an actual effort towards the continuity of the relationship.

In addition, it is useful to establish, from the very beginning, specific goals and requests, and clauses specifically created for the definition of the reciprocal adaptation.

Furthermore, practices of bilateral protection - both formal (financial guarantees) and informal (trust, accountability)⁸ - would result necessary.

The aim of all this is to save the costs and share the sort of “quasi-rents” resulting from working together.

The similarity of these “hybrid forms” and the advantages they imply, such as described by Menard as the mixed enterprise, is clear.

In the attempt to make such concept more general, without considering the specificities of the different national regulations and legal systems, we can say that the mixed enterprise is

⁵ Johnson C., Osborne S.P., “*Local Strategic Partnerships, Neighbourhood renewal, and the limits to Co-governance*”, Public Money and Management, July, 2003

⁶ Osborne S.P., Mc Laughlin K., “*The cross-cutting review of the Voluntary Sector: where next for Local Government-Voluntary Sector relationships?*”, Regional Studies, vol.38.5, 2004

⁷ Menard C., “*The Economics of Hybrid Organizations*”, Journal of Institutional and Theoretical Economics, n. 160, 2004

⁸ Menard C., “*The Economics of Hybrid Organizations*”, Journal of Institutional and Theoretical Economics, n. 160, 2004

characterized by being an organizational form that, somehow, represents a choice of “quasi-integration” both from the public and the non-profit side.

Obviously, the concept of mixed enterprise is not entirely new in literature.

This term has already been used by French scholars (“co-enterprise”), among which M. Bedard, L. Bernier, E. Poltier, M. Tereraho; English ones (“mixed-enterprise”), such as S. Brooks, L.D. Musolf, D.L. Spencer, A.R. Vining; and German academics (“gemischtwirtschaftliche Unternehmung”), as F. Terhalle and K. Spohn.

What links the different definitions is the idea of “public and private participation in the capital and control of a corporate venture”⁹.

However, what has recently stimulated the interest of scholars and operators, is the applicability of this model to the sector of public personal services, in particular within the partnerships between the government and the Third sector.

The literature on this topic is not so copious as the literature that analyses mixed forms with private-for profit partners.

Indeed, if we consider the mixed formula as an evolution of the collaborative relation with the government, we can identify, for the non profit partner, different peculiarities.

In the case of the public-non profit mixed enterprise, the main peculiarity is that, traditionally, the private counterpart has represented a supplier of public authority.

As far as this point is concerned, it seems interesting to recall some patterns set by scholars in the field of the client-supplier relations existing in different industries¹⁰.

Actually, between these theorizations and the evolution that involves public-non profit relations emerge significant connections.

In general, we can say that the growing instability typical of the companies’ competitive environment is encouraging the transformation of client-supplier relations.

The latter increasingly become ‘tight’ on the one side, and selective on the other, pushing the parts towards a progressive reciprocal integration, which affects two aspects.

In primis, it affects the planning point of view, so that client and supplier begin to design, together, the product or the service strategies that should be pursued jointly.

Secondly, it affects the production aspect, so that information and the processes involving the whole value chain are actually shared.

These coincide, respectively, with the concepts of “co-design” and “co-makership”.

⁹ Spencer D.C., “*Mixed Enterprise as a tool of economic development: India’s contribution*”, The American Journal of Economics and Sociology, vol.14, n.2, 1955

¹⁰ De Maio A., Maggiore E., “*Organizzare per innovare. Rapporti evolutivi clienti-fornitori*”, Etas, 1992

Lorenzoni G., “*La strategia vincente delle alleanze verticali*”, L’impresa, n.6, 1993

Merli G., Leoni M., “*Comakership – Clienti e fornitori: come fare business insieme*”, ISEDI, 1997

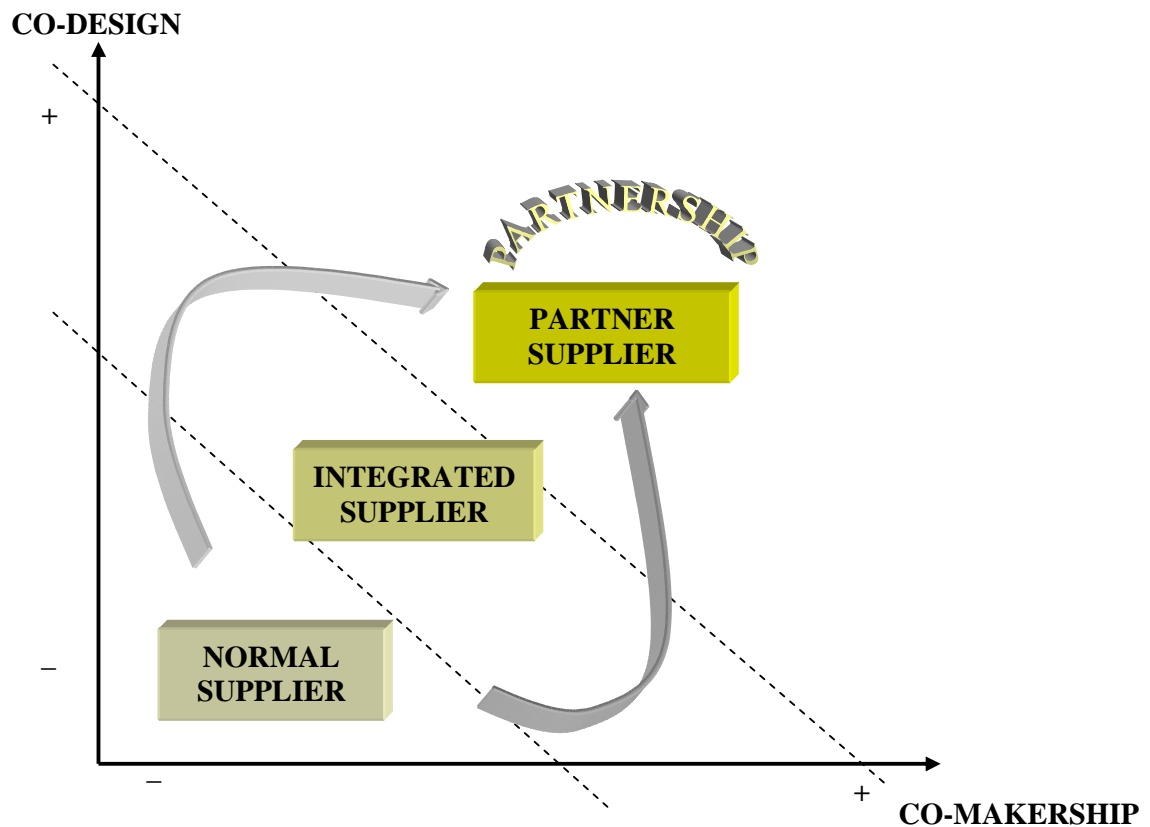
In relation to these, we can depict an evolution of the supplier’s role in the relationship, which moves through three stages¹¹:

1. “normal-supplier”: transactions are based on qualitative specifications and founded on the logic of price; orders are short-termed.

2. “integrated-supplier”: quality is agreed *ex ante*; provisions are more frequent; prices are more flexible, in terms of market adaptation; the supplier begins to be considered a consultant.

3. “partner-supplier”: cooperation in planning is relevant; investments are shared; the exchange of information about products and processes is constant.

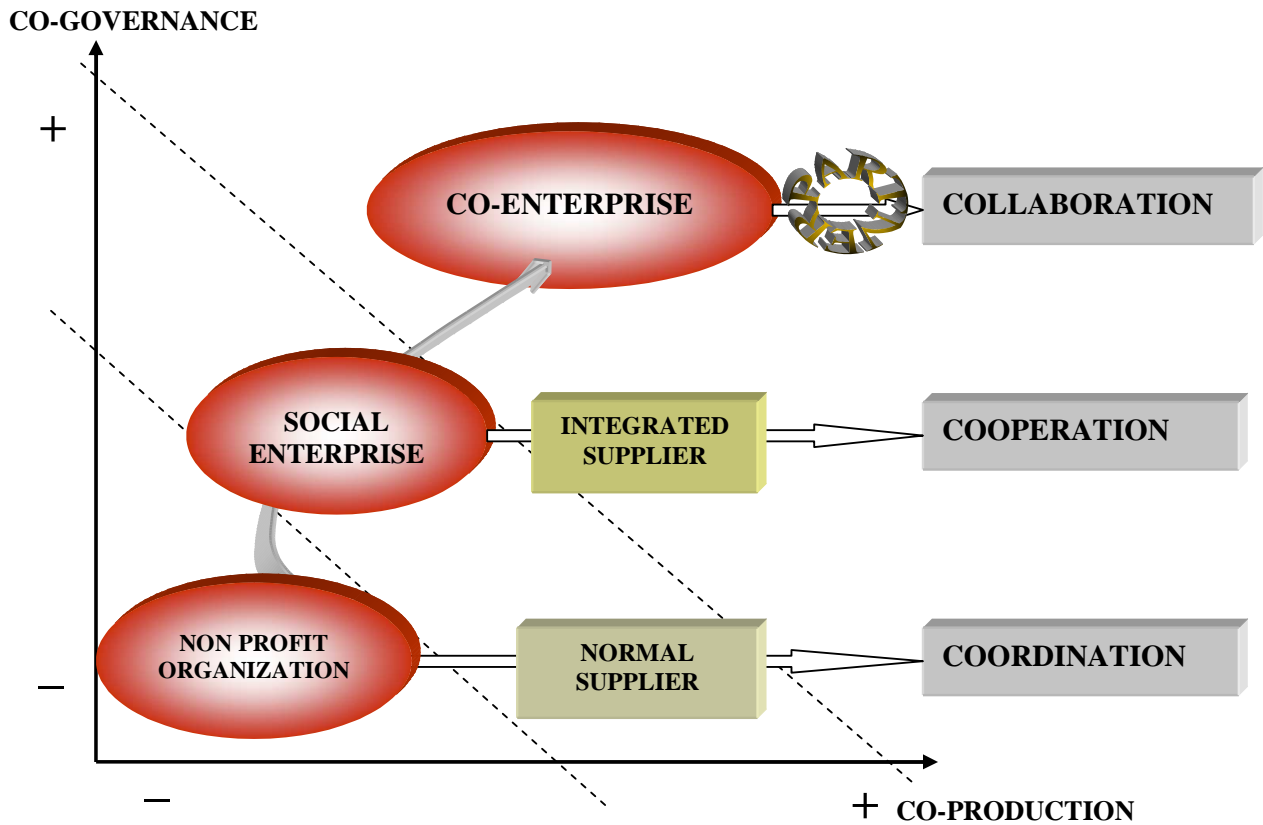
Fig.1- Evolutional stages of exchange processes between client and supplier



The analogy between the concepts of “co-design” and “co-makership” and those of “co-governance”¹² and “co-production”¹³ appears quite clear.

¹¹ Merli G., Leoni M., “Comakership – Clienti e fornitori: come fare business insieme”, ISEDI, 1997

Fig. 2 – The evolutionary process of the non profit enterprise



Thus, it could be possible to elaborate a similar model that, once the changes occurred in the relationship with the Public Administration are acknowledged, is able to outline an “evolutionary process” of the role played by the non profit actor.

With the mixed enterprise, this role changes significantly. The move towards an authentic partner position within a fair relationship, represents indeed the climax of the evolutionary process that characterises the “collaborative strategy” of the non profit organisation, as theorized by F. Manfredi¹⁴.

¹² Co-governance is here intended as “the involvement and participation of the collaborating parts in the governance of the accord; the balance of decisional power in the phases of planning, other than delivery, of services; as well as the sharing of the mechanisms of reward and control”.

¹³ Co-production is here intended as “the involvement of different entities (e.g citizens-co-workers) in the production of services, with significant contribution and concrete sharing of inputs, in a long-term collaborative perspective and with a democratic participation in the formulation and implementation of the policies and strategies related to the services”

¹⁴ Manfredi F., “Le strategie collaborative delle aziende non profit. Economicità, etica, conoscenza”, EGEA, 2003

If we consider its phases, the process begins with an “initial phase”, where the collaborative experience of the social actors involved is almost absent, and the awareness of the value of their output and the output produced by the relationship is minimal.

Moving further, we come to a “stage of development”, when the NPO starts to pursue a convergence of the views, the cultures and the interests typical of the different stakeholders involved in the relation, seeking possible determinants of compatibility.

After this, we have the “maturity phase”, when the basis to build a more solid relational environment are developed.

Levels of uncertainty lessen, while the value of output increases. Above all, there’s the need to reinforce the position achieved and make the collaborative relation more effective.

Goals are better defined and agreed on by the different shareholders and new connections are developed in order to improve the capability of innovation and adaptation to the changes of the environment.

Finally, we have the “*inter-pares* relationship” or proper “partnership”, where the role of the non profit organisation changes even more.

The quality of interaction improves and the social positioning upgrades; the ambiguity of common goals is minimized, the latter grow in terms of importance; and the respective tasks, rewards and sanctions are formalized.

This generates greater innovative capability, flexibility in replying to environmental changes, strong awareness of the value of the relationship and reduction of the level of risk and consequent uncertainty.

As a result, the relationship becomes long-lasting and autonomous.

The congruence with the phases that are typical of the relation with the Public Administration is clear.

From a mere instrument for the delivery of public services, the non profit actor has gradually developed an increasing awareness of its role inside the relation and within the community.

The intermediate phases of development and maturity follow.

Here the role of “supplier” has progressively become closer to that of “partner”, via different forms (e.g. support vs accreditation), with which even the legislator has considered appropriate to legitimate the growing importance and awareness of the non profit actor’s role.

Up to the formula of the mixed enterprise or, even better, of the “co-enterprise”.

Here, the interrelations are strong and formalized, resources are shared, processes are joint, the innovation capability is greater, and answers are quicker.

It seems indeed useful to delineate a typology of enterprise different from the past, one which, while maintaining the peculiarity of the non lucrative purpose, distinguishes itself from the others thanks to the ability to merge its own characteristics with those of a public player, with whom it shares a common goal: the good of the community they belong to.

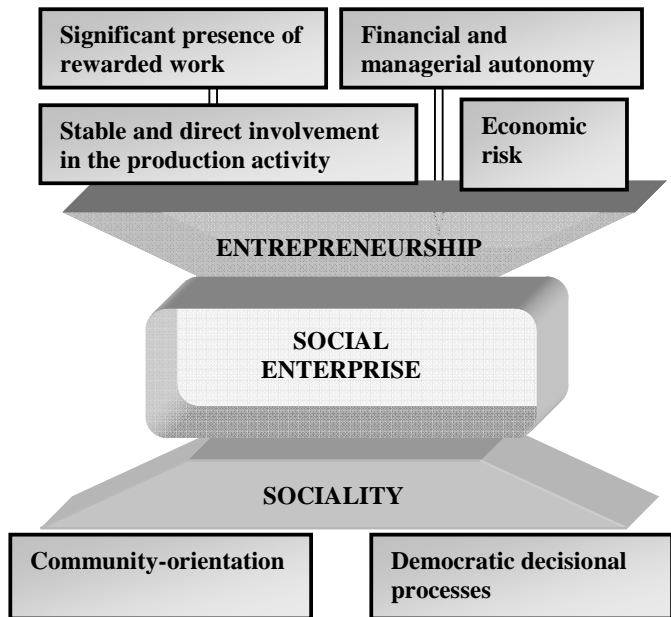
Recently, the interest in the conceptualization of the “social enterprise”¹⁵ (conceived in order to distinguish, “positively”, non profit organizations that have particular features) has developed.

Whilst, in fact, non profit organizations are defined “negatively”, as organizations that do not pay dividends, “social enterprises” are considered so because of not only their entrepreneurial nature and their productive function, but also their social purpose.

This double “soul” (entrepreneurial and social), can be split into different features.

These help to appreciate the specificities of a portion of players of the Third sector that, as a result of a sort of Darwinian evolutionary process, have been able to achieve autonomy and a new identity, thus distinguishing themselves from others still relegated to a condition of dependence, uncertainty about their own role and their objectives within the community.

Fig.3 – Characteristics of the social enterprise



In the light of the observations made before, in relation to the new forms and roles that the non profit players may assume, the concept of social enterprise can no longer define the

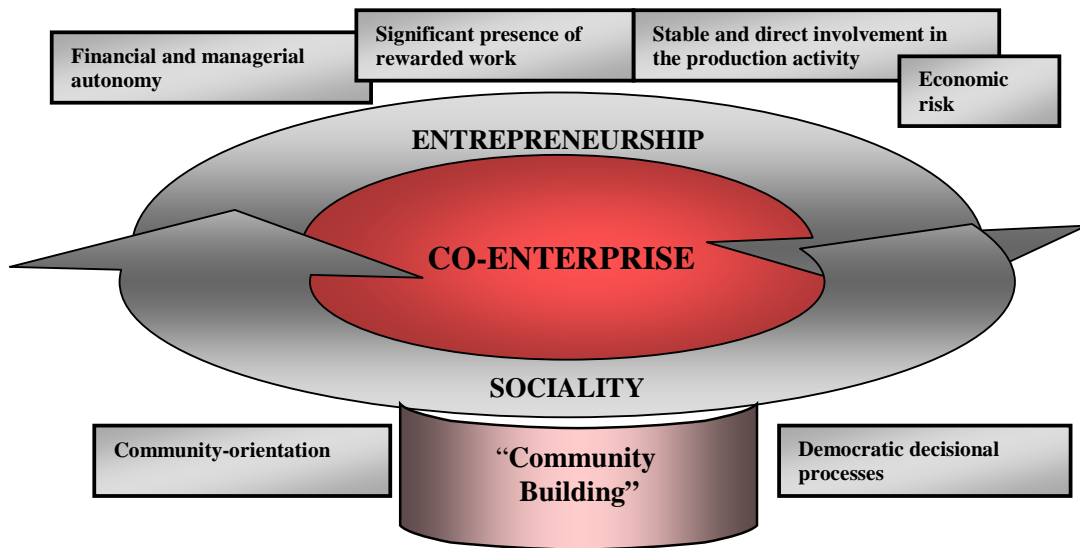
¹⁵ Borzaga C., Defourny J. (Eds), “*The emergence of social enterprise*”, Routledge, 2001

peculiarities of those companies which in actual fact have taken a further step in the “evolutionary process”.

The concept of “co-enterprise” can therefore be used to legitimate the importance of the role that the organization plays not only in relation to the Public Administration, but also in the governance of the local system.

On the one hand, in fact, the entrepreneurial approach is maintained, on the other, the correlations among all the stakeholders are improved, thus becoming stronger.

Fig 4 – Characteristics of the co-enterprise



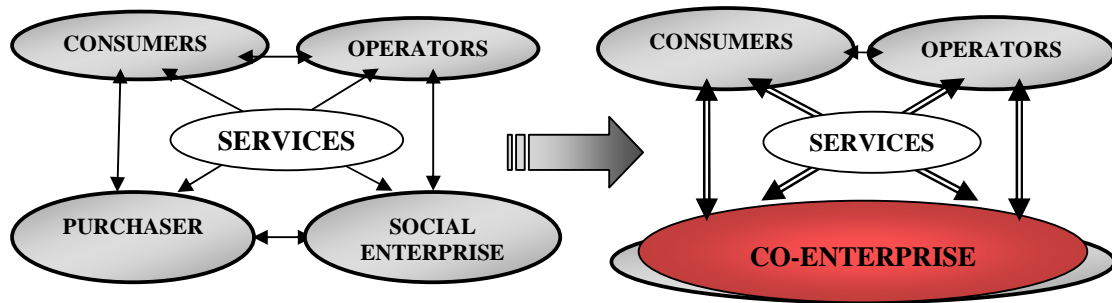
Co-governance and co-production originate in (and in their turn originate) the sharing and the communality of interests, intents, goals and resources.

The aspect of the notion of social enterprise that is overcome, is actually the “individual” dimension, understood both in relation to the concepts of “sociality” and “entrepreneurship” (that in the “co-enterprise” merge into one) and in relation to the organization itself which, as a social enterprise, would rather continue to be a mere supplier of the public authority or its substitute.

And this does not affect the different concept of entrepreneurial “autonomy” which, on the contrary, is improved in the co-enterprise.

Moreover, thanks to the particular connection that is created with the public institution, also the other relations within the community will improve, especially in terms of trust.

Fig.5 – Enhancement of stakeholders relations



This broadening of the organizational boundaries, encouraging an improvement of the relationships among the stakeholders, allows the production of social capital within the community's environment.

This is what M.Weil defines as “community building”¹⁶, which, besides the production of the service itself, now becomes a joint objective of the partnership.

Such a concept is defined as the whole set of policies, practices and activities that support and widespread positive interactions among individuals, groups, organizations and communities.

And this perspective appears rather close to the one put forward by G.T.Kingsley, J.B.McNeelj and J.O.Gibson, according to whom the enhancement of public-private partnerships has a double effect¹⁷.

On one hand, we have the strengthening of shared values such as trust, and the intensification of inter-organizational networks leading to the production of social capital.

On the other, individuals learn new ways to communicate and collaborate over time, something that increases the level of know-how and the professional competences available to the community.

This approach is based on a model of partnership where, as with the model previously described, values, expectations and results are actually shared.

Above all, when it comes to “community building”, the role of the partnership in the entrepreneurial processes and in the processes of planning and strategy development, becomes fundamental.

¹⁶ Weil M., “Community building: building community practice”, Social Work, vol. 41, n.5, 1996

¹⁷ Kingsley G.T., McNeelj J.B., Gibson J.O., “Community building: coming of age”, The Urban Institute, 1997

And according to the same authors, all these are issues that need a direct interaction among all the members, and the conscious purpose to broaden the boundaries of the collaborative relation, thereby “overcoming institutional barriers”.

These are actually the intrinsic characteristics of the co-enterprise.

3. Co-management principles and the role of co-enterprise in the public sector management

Changes in Public Management have progressively introduced in the management of public services factors that are typically sourced from the private sector, such as: the language of consumerism; the development of government by contracts; the principles of performance management; the use of “quasi-market”¹⁸ forms.

It the meantime, it is recognized that, in order to bring positive effects, these factors should not be merely drawn from private sector and balanced by the recognition of the values of the public sector.

This is why the form of mixed enterprise, if owned by public and non profit actors, could grant this kind of balance better than other organizational forms.

In fact, the introduction of new management procedures and economic assumption, even if coming form the private sector, are filtrated by the non profit principles.

This is possible thanks to the institutional order and the “double soul” of the mixed enterprise, that, even being a private entity, operates for public goals.

¹⁸ Stewart J.; Walsh K., “*Change in the management of public services*”, Public Administration, vol. 70, n. 4, 1992

Fig.6- The institutional definition of mixed enterprise

		NATURE OF THE INTEREST	
		Public	Private
LOGICS OF ECONOMIC BEHAVIOUR	Distribution of dividends	MIXED ENTERPRISE	For profit enterprise
	No distribution of dividends	Public enterprise	Non profit org.

Source: Manfredi, 2003¹⁹

Furthermore, with the mixed enterprise, it is possible to pursue a “double purpose”.

On the one hand, the necessity to maintain conditions of economic balance should ensure an efficient employ of inputs. Moreover, the possible choice of the form of the limited company would allow a more effective provision of financial resources.

On the other hand, the institutional purpose of the NPO, that coincides with that of Public Administration, remains the qualitative and quantitative improvement of services.

In this way the nature of the interest clearly remains public, with no risk of contamination for the non profit or the public part.

In addition, this happens independently from the fact that the major stock is public or private. What matters is that, even maintaining a public interest, it is formally a private owned company.

Actually, if the choice of forms of market competition (e.g contracting-out forms) can certainly improve performances in service delivery, actually ownership also matters a lot.

This does not imply that private ownership is always preferable to public ownership.

¹⁹ Manfredi F., “*Le strategie collaborative delle aziende non profit. Economicità, etica, conoscenza*”, EGEA, 2003

But it is demonstrated²⁰ that where competition is normatively appropriate, private ownership is preferable from an efficiency perspective.

One of the reasons is that the most accredited models for developing organizational strategies seem to come from the private sector.

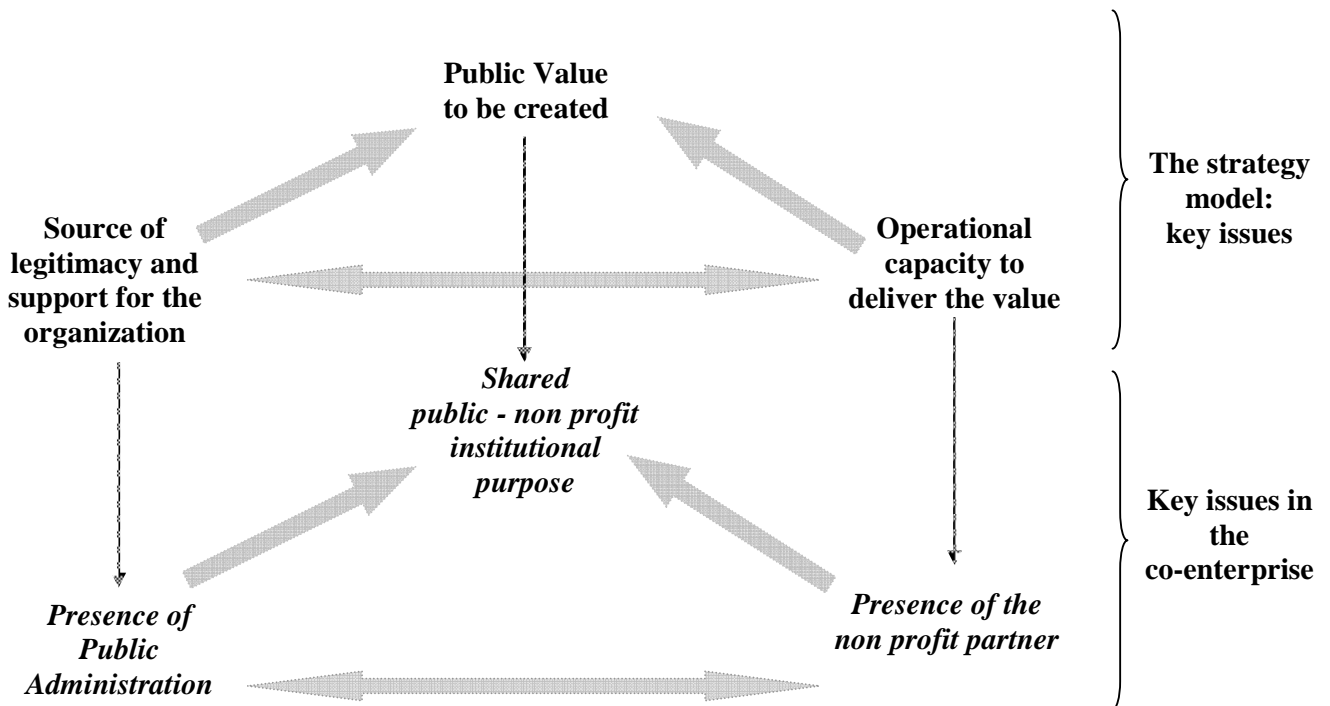
The concern is rather about the strategic problem faced by the non profit organizations and government bureaucracies, that these model often do not take into consideration.

This is related to the value these organizations produce, since this lies in the achievement of social purposes for which no revenue stream is readily apparent, rather than usually it is in creating wealth for shareholders or satisfaction to customers.

M. H. Moore develops therefore an alternative strategy model²¹ suitable for government organizations, that focuses the attention of managers on three key issues: public value to be created, sources of legitimacy and support for the organization, and operational capacity to deliver the value.

Co-enterprise is an organizational form that concretely fits this strategy model, which resonates powerfully with the experience of non profit managers, focusing attention on social purposes rather than only on financial objectives achieved by selling products and services.

Fig.7 - The strategy model in the co-enterprise



²⁰ Vining A.R. ; Boardman A.E.; “Ownership versus competition: Efficiency in public enterprise”; Journal of Public Choice; vol. 73, n. 2; pp. 205 – 239; 1992

Actually, these three key strategy issues can be exploded for the co-enterprise:

- *Presence of PA* → the traditional monopolistic mentality of public services provision has been replaced by a cultural change which overcomes the common wisdom identifying the “owner” of public services with the juridical subject in charge of their provision.

That means, the service is considered “public” because of the needs it is conceived to fulfil, independently from the juridical nature of the entity delivering it.

Nevertheless, the fact that a public institution is directly involved, both in the governance and in the production of the service, is an institutional and “psychological” guarantee that the service is functional to the public goal it is suppose to pursue.

Such a presence is therefore source of legitimacy and support for the organization responsible of service production, even if it is a private entity as in the case of the co-enterprise.

- *Presence of the non profit partner* → the NPM reform focused on the identification of technical and operative solutions, and organizational and managerial models, that could improve government performance in service delivery²². These principles are often derived from the private sector and consequently adjusted to the different features and purpose of public organizations.

This is a sort of “customizing” process, which is risky and not easy to manage, when there is the public interest playing a significant role. This is why the peculiarity that the private partner in the co-enterprise is a non – profit organisation makes this “adjustment” easier and more functional. In fact, even belonging these managerial techniques to a private “sphere”, they are used with an analogue purpose they would have when introduced in an organization supposed to play a public role, such as the co-enterprise.

- *Shared public - non profit institutional purpose* → the most important thing the public and non profit actors have in common, is the institutional interest they share. That is, the public interest, as intended as the production of something that brings value to the community as a whole.

Adopting a “functional approach” to define the meaning of public interest, Government role is mainly that to individuate and choose the more adequate forms and entities that, in terms of efficiency and effectiveness, are better able to fulfil the public function.

²¹ Moore M.H.; “*Managing for value: organizational strategy in for profit, non profit and governmental organizations*”; Non Profit and Voluntary Sector Quarterly ; vol. 29; n. suppl 1; pp. 183 – 208; 2000

²² Hood C., “*A Public Management for all seasons?*”, Public Administration, vol.69, n.1, 1991

Therefore, the public function²³ itself can be run also by different or not-public institutions, if able and oriented towards the production of public value.

This seems to be the case of co-enterprise.

By definition “public value” is intended as “institutional yield”²⁴, as synthesis of two main dimensions: the quality of public policies and the economic optimisation of the underlying managerial processes.

The intention is here to demonstrate that the co-enterprise can positively influence both these dimensions, throughout the implementation of the mechanisms of co-governance and co-production already described by the authors²⁵.

Co-governance is in fact able to favour forms of interaction for governing purpose²⁶, based on informed and shared decision processes, cooperation, delegation of responsibility, co-planning, that enhance the quality of public policies.

Co-production, on the other hand, influences performances linked to service management, in terms of both efficiency and effectiveness.

G. Kelly, G.Mulgan and S.Muers²⁷, for instance, split the concept of public value in the components of “service” (user satisfaction, ethos, culture expressed in service delivery); “trust” (between citizen-users and government) and “outcome”. Particularly in the last one, they recognize how co-production mechanisms play a noteworthy role. In fact the way services are organized, in partnership with other “players”, seems to have a significant impact on the effects of the services interacting with other social and cultural activities and forces.

It can be said that co-governance mechanisms mainly shapes the quality of public policies such as co-production influences the functionality of managerial processes. Nevertheless, the interaction among these dimensions is really high, particularly in the co-enteprise.

²³ For further details on the conceptual dinstiction between function and service, see Fiorentini G., Meneguzzo M., Zangrandi A., “*La Pubblica Amministrazione da sistema burocratico a network di servizi*”, in Fiocca R. (ed.), “*Imprese senza confini. Sviluppo e nuove forme di alleanze tra aziende*”, ETAS, Milan, 1987

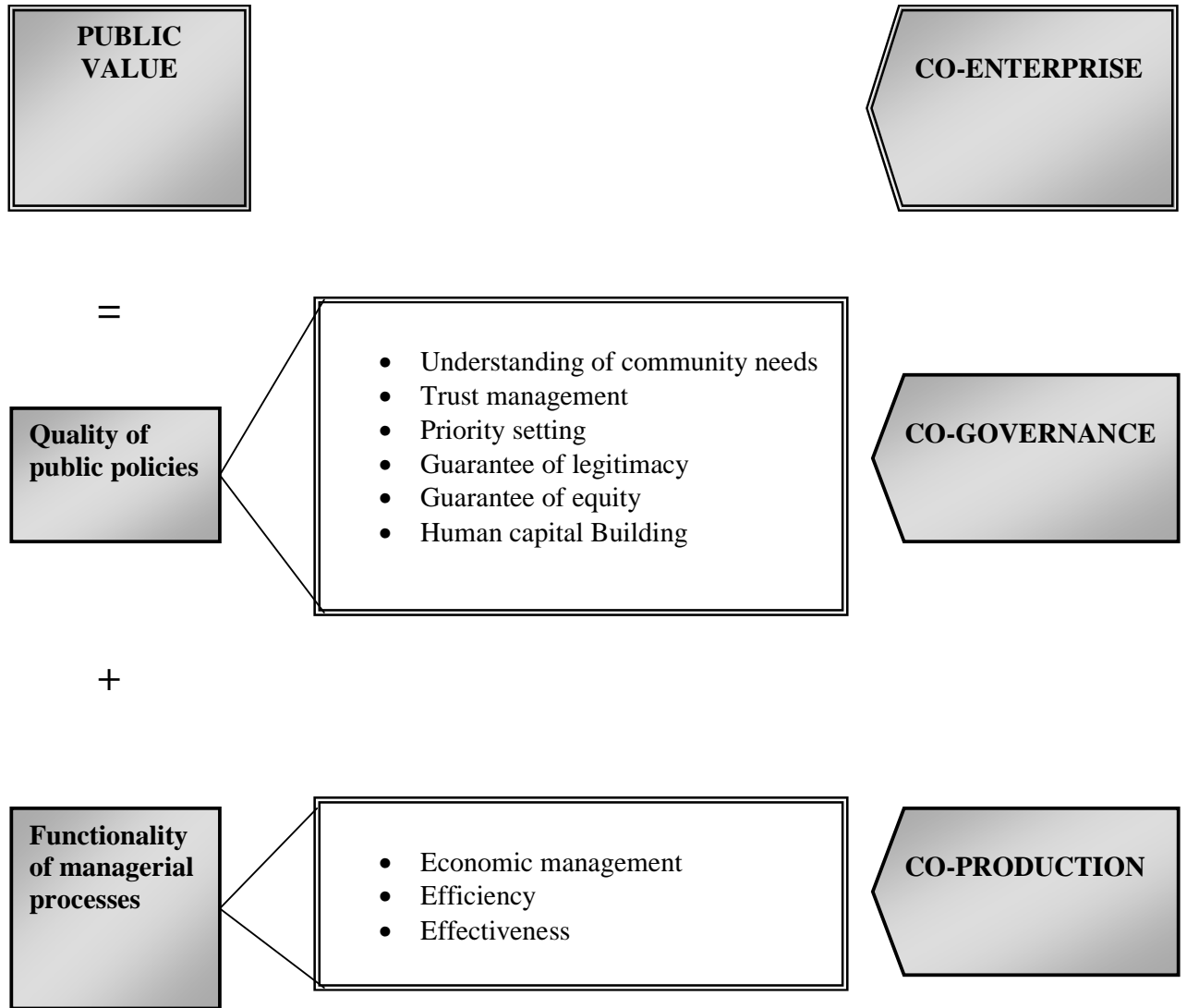
²⁴ Rebora G., “*La valutazione dei risultati nelle amministrazioni pubbliche*”, Guerini e Associati, 1999

²⁵ Manfredi F., Maffei M., “*Co-governance and co-production: from the social enterprise towards the public-private co-enterprise*”, in Osborne S.P. (ed.), “*The Third Sector in Europe: continuity and change*”, Routledge, 2007– not yet printed

²⁶ Kooiman J., “*Governing as governance*”, Sage, 2005

²⁷ Kelly G., Mulgan G., Muers S., “*Creating public value: an analytical framework for Public Service Reform*”, UK Cabinet Office, 2004

Fig.8 - The co-enterprise and the production of public value



Considering that the co-enterprise can be assumed as the relational form with more co-governance and co-production contents, it might consequently be the managerial estate that, better than others, could improve the production of public value.

4. The economic advantages of the co-enterprise in the production of public services.

It has been already said that the co-enterprise could allow improving the functionality of service delivery. In general terms, that means enhancing public productivity, as well as the functional relationship among concept like efficiency and effectiveness.

In the copious literature on public performance, efficiency is generally associated with outputs – the goods and the services produced – and effectiveness with outcomes – the impacts of government programmes on society.

*“Efficiency has both quantitative and qualitative characteristics that include the volume and the cost of services, response times and error rates, the accessibility of services and the courtesy with which they are provided, and citizen/customer satisfaction with services. Effectiveness means that programmes are in accord with the priority and objectives of government, and produce the expected or desired impacts”*²⁸.

Assuming the abovementioned ones as general performance indicators, it can be now better analyzed how the co-enterprise may improve public productivity.

The reason why this performance improvement might work in the co-enterprise better than in other public-non profit relational forms, lays in the greater involvement this model is able to offer to the non profit actor, both in terms of co-governance and co-production.

Actually, it is widely recognized the capability of non profit organizations to produce services more efficiently than Government or Private companies are able to do alone²⁹.

If declining the concept of efficiency as ratio between input and output, it is possible to state that the presence of volunteering work could decrease production costs, if compared with the exclusively public or private alternative³⁰.

To add there is the lower cost of capital, determined by the different sources of funding of non profit organizations, which includes subsidies and non commercial resources of public and private derivation.

Regarding output levels, than, it is well known the NPOs capability to fill the gap caused by the standardization of services (as reply to the failures of Market and State), being they able to offer more differentiated and customized services³¹.

²⁸ Schick A., *“The Performing State”*, OECD, March 2006

²⁹ Hansmann H., *“Economic theories of non profit organizations”*, in Powell WW. (ed.), *“The Non Profit Sector: a Research Handbook”*, Yale University Press, 1987

³⁰ Kramer R., *“Non profit social services and the Welfare State: some research considerations”*, in Anheier H., Seibel W. (eds), *“The Third sector: comparative studies of non profit organizations”*, de Gruyter, 1990

³¹ Weisbrod B.A., *“The future of the non profit sector: its entwining with private enterprise and Government”*, Journal of Policy Analysis and Management, vol. 16, n. 4, 1997

This leads to higher quality of the services offered, due to the aptitude of the Third sector to attract qualified human resources, like volunteers and professionals focused on community needs, able to establish close relationships with users and to identify their needs better as Public Administration does alone.

In terms of trust building and response rate, relevance of Third sector in the production of services is further valued by theories that recognize it as more reliable than both Government and for-profit enterprises. This is due to its capability to overcome those problems linked to the failures of contract between customer and supplier, determined by the existence of information asymmetries³².

As a consequence, non profit organizations would allow customers to better control the quality of the product, making easier the transaction with supplier, and granting high quality standards, not being pressed by the pursuing of profit maximization.

Besides the possibility of Public Administration to exploit the distinctive characters and comparative advantages of non profit organizations, partnership leads to further advantages for both the actors.

These are the so-called “*collaborative advantages*”, so defined as “the creation of synergy between collaborating organizations (...) achieved when each organization, through the collaboration, is able to achieve its own objective better than alone”³³.

J.M. Brinkerhoff and D.W. Brinkerhoff³⁴ also list a series of ranges for improvement: higher effectiveness and overall efficiency in delivery, better quality and responsiveness of public policies, broader manifestation of public values.

Moreover, effective building of social capital, through the renewed interaction between citizens and the State, driven by the proactive role played by the non profit actor.

Linden³⁵ enumerates further positive effects of public – non profit collaboration, such as cost sparing; the possibility to face the complexity of new users needs with more effectiveness; a more adequate way to satisfy consumers, which are not disposed to accept and pay poor quality performances anymore. Furthermore, the opportunity to learn from each other.

³² Hansmann H., “*The role of non profit enterprise*”, The Yale Law Journal, vol. 89, n. 5, 1980

Lipsky M., Smith SR., “*Non profit organizations, Government and the Welfare State*”, Political Science Quarterly, vol. 104, n. 3, 1989-1990

³³ Huxam C., “*Collaborative capability: an intra-organizational perspective on collaborative advantage*”, Public Money and Management, Jul-Sept, 1993

³⁴ Brinkerhoff JM., Brinkerhoff DW., “*Government – Non profit relations in comparative perspective: evolution, themes and new directions*”, Public Administration and development, n. 22, 2002

³⁵ Linden R.M., “*Working across boundaries: making collaboration work in Government and non profit organizations*”, Jossey – Bass, 2002.

The involvement of Third sector would actually allow to improve the processes of public policies designing, adopting decisional processes which are “informed” by market-based logics, rather than based on political - bureaucratic models of services delivery³⁶.

The literature on this issue is copious and exhaustive, valuing the involvement of the non profit sector in the production of services.

Actually, the increase of the awareness about these advantages has led through different stages of public-non profit collaboration, which have been associated to the different level of involvement of the non profit actor.

Here the focus is on the concrete capability of public-private co-enterprise to produce, better than other relational forms, the economic advantages as described before, overcoming at the same time the historical problem of the instrumental use of the third sector.

Therefore, if “*the legitimacy of public services derives from the capacity to respond to the needs of citizens in an economically efficient way*”³⁷, the recognition of this capacity of the co-enterprise proves the legitimating of its public function.

³⁶ Longoria T., “*The distribution of public-private partnerships: targeting of voluntary efforts to improve urban education*”, Non profit and voluntary sector quarterly, vol. 28, n. 3, 1999

³⁷ Kalliola S., “*Self-designed teams in improving public sector performance and quality of working life*”, Public Performance Management Review, vol. 27, n. 2, 2003

General criteria	Specific criteria	Key Performance Factors	Performance drivers in the co-enterprise*
Capacity to respond to the needs of citizens	Client/citizen responsiveness criteria	<ul style="list-style-type: none"> Quality of services Citizen/ Customer satisfaction Availability of public services Accessibility of public services Equity of access Innovation/ Variety of consumer choice 	Market orientation
Quality of public policies	Policy accountability	<ul style="list-style-type: none"> Quality of information about services Quality and transparency of decision processes Inter-agency cooperation Trust Policy coordination Democracy 	Co-governance mechanisms
Economically efficient processes	Management criteria	<ul style="list-style-type: none"> HRM Organization flexibility Change management processes Strategic management Risk management Innovation management 	Co-management mechanisms
Functionality of managerial processes	Ownership interest criteria	<ul style="list-style-type: none"> Efficient use of public and private resources Management of cash and fixed assets Organizational capabilities 	Co-ownership
	Economical and financial criteria	<ul style="list-style-type: none"> Productive efficiency Labour productivity Cost effectiveness Transaction costs Compliance costs 	Co-production mechanisms

*Obviously, the same driver may have an impact on different factors. The intention is here to indicate the main estate of each mechanism.

5. A model of co-enterprise: the case of Parmainfanzia S.p.a.

5.1 The evolutional development of Pro.Ges and the constitution of the co-enterprise “Parmainfanzia”

Pro.Ges is a social cooperative with its headquarter in Parma, operating in the field of public personal services, and born more than ten years ago, like other cooperatives in the Emilia Romagna area, in order to provide “personnel’s substitution” within educational services.

Over the time, the imposition of a roof to the expenses of local agencies, the ties imposed by the economic and financial parameters set by the Pact of Stability, together with the continuous increase of the demand for services, made local agencies unable to guarantee the fulfilment of the population’s needs.

The major concern within childcare services related to nursery schools, where up to 60% of applications remained unanswered.

It is in this context that, during the nineties, the out-sourcing of services began.

Soon after it was created, Pro.Ges began to tender for the services contracted out by the Municipality of Parma.

Concurrently, during this phase Pro.Ges improved the production and management of its own services, investing more in the property’s assets and broadening the scope of its activities from a geographical point of view.

In this way, Pro.Ges progressively distinguished itself as a “social enterprise”.

The portfolio of services was enriched, as new typologies were added to the services traditionally delivered.

It is clear that in this phase Pro.Ges went through the “collaborative strategy” stages, during which the cooperative reaches a higher awareness of its own work; different stakeholders agree on common goals and visions; and new connections are created.

Even if the relationship was then much more formalized than before, it remained however precarious, particularly from Pro.Ges’ point of view.

Being determined *a priori*, the relationship did not allow the non profit part to make investments supported by a strategic and operational long-term perspective.

The basis for negotiation with the Municipality was predominately related to the price; hence Pro.Ges’ experience and innovative ability were not valued by parameters of evaluation of tenders that were exclusively defined on cost basis.

Evidently, a fast developing reality such as Pro.Ges could not be satisfied with such a situation.

By being constantly measured and controlled only in terms of cost, the cooperative's work was demeaned.

On the contrary, the cooperative was putting lots of effort into the reorganization of its internal processes, which would have allowed a better monitoring of clients' requests, both internally and externally, in favour of a constant redefinition of the service supplied and a better understanding of the needs of all potential consumers.

Furthermore, there were problems with the public services that the Municipality was no longer able to solve by itself.

There were also other issues regarding the costs for spaces and structures.

In order to guarantee better safety within the buildings and to re-qualify the existing spaces, from 2000 to 2003 the Municipality progressively increased its investments for Kindergarten and Nursery Schools, planning other investments for the period from 2003 to 2005.

For this reason, the Municipality felt the need to search for new managerial forms, capable of overcoming these problems and the mixed enterprise seemed to be the most appropriate managerial formula.

At that moment, Pro.Ges was already managing a number of Kindergartens, some of which were its own and managed under agreements, and others totally contracted-out by the Municipality of Parma.

Such managerial forms did not satisfy Pro.Ges, which with the formula of short-term contracting-out (maximum 2-3 years), had no incentives to invest.

It was felt that there was a need to initiate long-term projects that would permit the engagement of funds in new structures and the development of human resources.

In reality, the selection of the partner for the constitution of the company was not meant to find just someone who could manage the structures.

Rather, what was hoped for was a partner who could also take the responsibilities related to the design of services, the building of new structures and the organisation of new activities.

And this perspective seemed to suit Pro.Ges's entrepreneurial plan perfectly.

5.2 The impact of Parmainfanzia on the quality and responsiveness of public policies

With the constitution of Parmainfanzia, the Municipality had the following strategic goals:

1. increase the places available (for both Kindergartens and nursery schools);
2. plan and realize formative activities;
3. create a study and research centre on infancy;
4. enhance the external visibility of the pedagogical-educational model of municipal services;
5. construct and develop a “quality system” of services based on the ISO model;
6. sell advisory services to other agencies.

It is clear that, in order to pursue the objectives mentioned above, it was necessary to achieve an effective territorial integration of the private and public organizations dealing with educational services.

Such integration was very well suited to the characteristics of Pro.Ges’s “entrepreneurial formula”.

Indeed, Pro.Ges seemed to act as a local organization closely integrated within its territory of action, trusted by the community, and able to overcome those “psychological” and cultural barriers, on the basis of which it was common to associate the public aspect of the service with the juridical nature of the delivering organization.

As to the service itself, the search for a partner with qualified planning capabilities was intended to lead to the offer of constant incremental and radical innovations, in both the service and its organization.

Additionally, from this perspective, over the years Pro.Ges demonstrated its ability to diversify, differentiate and propose innovative services that are actually being implemented in Parmainfanzia.

Given such assumptions, in Parmainfanzia, for the first time in Italy in such circumstances, the private partner was given the opportunity to hold a majority stake in the Shareholders’ body.

The current legislation on joint-stock companies with public minority stock provides for the compliance with a series of conditions to preserve the common good.

Nevertheless, those limitations related to the structure of the stock capital should be not so onerous for a partner such as Pro.Ges, whose main wish was to engage, in a reliable and continuative way, in a long-term relation

What is new, is that here Pro.Ges assumes a formalized role into the body where the strategies relating to the management of the service are decided. That is the Board of Directors, where apposite mechanisms of balance are established, in terms of the power for deciding on the policies of the services.

With common consensus, “para-company pacts” were also stipulated, with the shared intent to reduce as much as possible the potentiality of conflicts.

Notwithstanding the series of legal and discretionary restrictions that the Municipality imposed in order to preserve the public good, the fact that a voice was however given to the prerogatives of the private part in such an important body as the Board of Directors, is certainly important, if we consider that this right is almost always absent in other relational forms.

Now Pro.Ges has the opportunity to make its proposals in the phase of planning, an opportunity that was previously completely absent, since Pro.Ges used to proceed only in response to the requests determined *a priori* by the Municipality, with its call for tenders to contract-out services.

What in general seems to be clear in the institutional order defined in Parmainfanzia, is also that a transparent definition of roles was chosen and agreed upon, so that each partner was aware, from the very beginning, of the extent of its power and responsibilities, and of the limits of its agency.

These roles, however, were defined on the basis of the respective functionalities and competencies.

Furthermore, each partner exercises a certain control on both strategic and operative decisional processes; within each of these, then, whoever holds compelling prerogatives in either sphere is more influential.

Furthermore, in Parmainfanzia there is another body where the interests and the visions of the two partners can be compared, so that the managerial activities can have a consistent “imprint”.

This is in reference to a body of coordination, defined in the contract as “Joint technical committee”, whose task is to elaborate and define pedagogical issues ensuring some homogeneity in the management of the municipal educational services acting as a tool of “policy coordination”.

The control is mainly exercised by the public agency on the work of Parmainfanzia, and in the case of the mixed enterprise, the control is both formal and substantial.

From a formal point of view, in fact, the typologies of control are basically those provided for by the law.

The place for substantial control, on the contrary, is mainly within the Board of Directors, where the Municipality can supervise the effective conduct of the service.

Here “control” goes from the management of the economic resources to the contents of the various actions to be undertaken for the delivery.

An additional form of control, one that concerns the characteristics of the service delivered, can take place inside the joint committee, where Pro.Ges holds wider discretionary spaces.

Due to this, besides other reasons, the formula of the co-enterprise differs from the forms of contracting-out previously used by the Municipality.

With the mixed enterprise one is accredited and controlled on the basis of shared standards.

These are actually agreed on by the partner, both *ex ante* (with the underwriting of the “Contract of Service”), and *in itinere*, during all the activities of the company.

Furthermore, in order to make the governance control more objective and effective, the decision was made to resort to external advisory companies that periodically write up reports containing both economic and qualitative evaluations, thereby monitoring the state of achievement of the goals settled as standards.

In addition to these reports, clearly there are the normal financial reports provided for by law for joint-stock companies.

According to the overview that has been performed, it is now possible to make some considerations about the mechanisms of co-governance at work in Parmainfanzia.

As the company’s institutional order makes clear, among the critical concerns, there is the strong control exercised by the public partner.

The latter, while remaining the official holder of the service, and also because of its institutional competences, exercises a role of control certainly stronger than that which a normal minority shareholder would have.

This role is however balanced by the discretion granted to Pro.Ges within the operational sphere, where it assumes greater responsibilities.

This, in its turn, determines Pro.Ges’s greater influence on the public policies related to the service.

The operations that follow shape, whether directly or indirectly, the direction assumed by the policies related to the services.

In addition to such mechanisms of a “more indirect” nature, however, the Municipality also wanted to entrust the private partner with the responsibility of planning and building the necessary structures to improve the service.

According to the partners, the level of involvement of Pro.Ges in the governance has grown over time, together with its ability to make incisive proposals, in terms of plans and projects.

Moreover, the autonomy of the new company permits the “de-bureaucratization” of certain administrative procedures still pertaining to the Municipality, so that with Parmainfanzia the ability of the authority responsible for the services to answer quickly to the changes of a fast developing market is improved.

The fact that through Parmainfanzia the Municipality is taking part in calls for tenders and other activities that it would have not been allowed to do alone (as these activities are not provided for in its Statute), stands as an example.

This is also what is enhancing the visibility of the municipal educational model outside the city, one of the goals of the mixed enterprise.

The latter actually aimed at the creation of a “pedagogical brand” that could value the experience of the Municipality, through the private partner, also beyond the city boundaries.

In short, a sort of “co-branding” activity, where the Municipality exploits the visibility, in organizational and managerial terms, of a leader of the sector such as Pro.Ges.

It can be concluded that, on the one hand, with this formula the Municipality achieved the strategic goals before settled.

On the other hand, decision processes are now more transparent, democratically shared and moreover informed by the market experience and orientation brought by Pro.Ges. That leads to a general improvement of the policies’ responsiveness to citizens needs.

5.3 The co-management system and its effects in Parmainfanzia

In the institutional order settled by in Parmainfanzia, the discretionary power of Pro.Ges is absolutely fundamental in the operational sphere, since it owns the right to nominate the General Manager, whose role should bridge the gap between planned and implemented strategy.

Actually, it is in this sphere that Pro.Ges is able to bring real added value to the partnership.

Its organizational and managerial distinctive competencies help to better handle the operational part of the service, especially in comparison to what the Municipality operating alone could do.

Actually, on Pro.Ges’s part, there was a significant endowment in the partnership of intangible resources, in terms of technical know-how and trust on the local community’s side, which seemed to be particularly useful to legitimate the ambitious initiative of the Municipality towards citizens.

Pro.Ges's crucial contribution was rather related to human resources, as it introduced, in the kindergartens and the nursery schools managed by Parmainfanzia, personnel who had been already accredited and who already had experience in the sector.

Basically, core activities are mainly handled by Pro.Ges human resources.

Parmainfanzia, in fact, does not hire educators and pedagogues; it uses rather those of the private partner.

Besides these activities directly related to educational services, there are other supplementary services that were still carried out by the Municipality but which could instead be handled directly from the mixed enterprise.

Particular reference is made to activities such as:

1. "Sector direction", with functions of planning, coordination and control for all the educational services and the operating structures of kindergartens and nursery schools;
2. "Direction of the kindergartens and nursery schools services", that dealt with the coordination and control of the specific activities carried out in the schools;
3. "Pedagogical Coordination", with functions of pedagogical-educational planning, survey of formative needs, arrangement of annual plans, coordination of structures, relation with families;
4. "Administration office", capable of handling lists, administrative activities, collections, payments, relationships with suppliers, internal control management;
5. "Consumers' counter", which should cover the function of reception of enrolment requests, as well as acting as a source of information in relation to the accessibility to the services.

Within Parmainfanzia, the directional activities (n.1, 2) are instead managed respectively by the Board of directors and the General Management.

The pedagogical coordination (n. 3) operates within the joint committee constituted by Pro.Ges and the Municipality.

The administrative activities (n. 4) are performed by the staff of Parmainfanzia, which, as determined by the "Contract of Service", deals with the consumers, the relationships with suppliers, the ordinary maintenance of structures and the internal control, etc.

The "Consumers' counter" (and therefore, the enrolments and relative lists) is the only element that remains of municipal competence. Since it is the official responsible for the public

service, the Municipality has in fact to control such function in compliance with the principle of fair accessibility.

The Municipality can therefore make remarkable savings on indirect costs, avoiding the duplication of functions and activities.

All this is actually possible thanks to the adoption of a flexible and straightforward organizational structure.

In addition to the directors and the General Manager, other staff was hired for particular projects, namely personnel that was employed in those activities which did not directly concern the operations, and which Pro.Ges could not have carried out.

Training activities, which usually do not require permanent staff, are mainly performed by external collaborators.

This way, the “techno-structure” becomes more ductile and reactive to environmental changes.

The rest of the management of the personnel (from selection to recruiting, training and development), is also directly entrusted to Pro.Ges.

Hence, it can be said that everything that relates to human resources and the organizational activity of the service, is managed through Pro.Ges, its structures and its offices.

This is defined through the stipulation of a contract between Parmainfanzia and Pro.Ges, according to which the latter is assigned a major part in the operations, from personnel management, to all the activities related to suppliers (of didactic or consumption materials, sanitary facilities...), or related to the commercial and financial aspects.

The choice of such a straightforward organizational structure, allowed keeping for extremely bearable service costs since the beginning, on the one side.

On the other side, other advantages have been maturing over time and followed the positive outcomes of the common operation.

Concerning the impact that the constitution of Parmainfanzia had within the respective organizations of the partners, it has to be said there were of course initial resistances and inertias.

Indeed, within the Municipality, the staff dedicated to the educational services perceived Parmainfanzia as a competitor.

The members of Pro.Ges, on the contrary, were afraid they would lose autonomy in the management of their services, with negative consequences for the work dynamics within the cooperative.

These concerns have been overcome thanks to the conscious adoption, within the new enterprise, of a managerial and leadership style that, in terms of communication and collaborative attitude, might be considered to be as transparent and open as possible.

At the same time, inside the single organizations, there was an effort to emphasise the positive approach managers and directors had towards the new project, in order to create and increase trust amongst the staff.

The dialogue between managers and collaborators dedicated to the implementation of plans has been stimulated; the personnel have been challenged, consensus has been created.

As a consequence, spaces of uncertainty, which could in fact encourage conflicts, are almost entirely absent, mainly thanks to the choice to define the respective functions precisely, without leaving anything vague.

Thus, some duties have to be undertaken by the public and the private partner together, others have to be managed separately.

This clearly reinforces the conviction that there is a mutual need for each other.

Hence, even potential tensions or misunderstandings (often of a political nature), are overcome thanks to the fact that the parties agree and understand the each other's goals; goals that converge within the company and the choices taken within the relevant bodies.

The constitution of Parmainfanzia brought also to a particular enhancement on the side of the services offered, in terms of innovation management.

The typology of services supplied is *in primis* the same that was traditionally supplied by the Municipality.

Furthermore, other strategic services have been developed, adding actual value to the previous municipal management of the service, and this has been possible thanks to the high professional competencies (both specialist and managerial) of Pro.Ges.

These additional services recently created are "Company kindergartens", "Domiciliary and familiar educators" and "Advisory services".

All of these are projects of common interest, which Pro.Ges was already experimenting, and that the Municipality would not have been able to start alone.

The Municipality has the possibility to involve the company interested in the service, in the subvention and the management of the service, simultaneously creating further places for children in its relative territory, at less cost.

Moreover, different forms of organizational innovation³⁸ have been implemented:

³⁸ Osborne S.P., Flynn N., "Managing the innovative capacity of Voluntary and Non-Profit Organizations in the provision of public services", Public Money & Management, Oct-Nov, 1997

1. supply of existent services to new targets that, because of the restrictions previously affecting the Municipality, were not able to have access to the service (*“expansionary organizational change”*);
2. qualitative improvement of existent services, for example by extending the opening time of the structures (*“developmental organizational change”*);
3. new services to existent targets, as with the Domiciliary educators (*“evolutionary organizational change”*);
4. completely new services to new targets, as the Advisory services offered to other public and private operators of the sector, or the recently founded Research Centre (*“total organizational change”*).

Indeed, Pro.Ges allows a better and broader provision of services, supporting initiatives of different entities.

5.4 Cost-effectiveness in Parmainfanzia

Initially, Pro.Ges mainly contributed in terms of financial, human and intangible resources. Municipality brought instead the infrastructures, with the relative pertinences, accessories, equipment and pieces of furniture. While remaining the property of the Municipality, Parmainfanzia could use them in exchange of a rent, whose amount can be considered quite favourable if compared to current market prices.

Actually, it is quite interesting to analyse the set up cost of all the productive structure.

First, it is necessary to bear in mind that among the Municipality’s priorities, when Parmainfanzia was created, there was the intention to supply services in compliance with the qualitative standards of the municipal services, at a lesser cost than the service directly produced.

Analyzing the organization structure in more economic terms, it is evident the possibility to save costs from different sides, comparing the costs of Parmainfanzia with those of the contracted-out services.

Firstly, the Municipality can make remarkable savings on the indirect costs of those “supplementary” activities now in charge of Parmainfanzia, that were not included in the costs of contracted-out services .

Furthermore, the scale economies that originate from the mixed enterprise allow all the structures, which were previously managed indirectly, to concentrate on a unique subject, thereby creating critical mass and the dilution of structures costs.

Then, as far as it concerns the direct cost of the service, this is mainly related to the personnel, which for the nursery schools reaches peaks of 84%.

With Parmainfanzia, this cost is considerably reduced thanks to the adoption of a lean and straightforward organizational structure as described before, which allows to engage Pro.Ges professionals in a flexible way, according to the contingency needs, without overweighting the permanent personnel structure.

Pro.Ges has in charge also the handling of goods and services of an instrumental nature (e.g. cleaning facilities), that represent the second factor influencing the direct cost of the service.

It is clear that the main determinants of the cost are contractually assigned to the private partner that, being more market-oriented, is able to guarantee lower costs than the public ones.

Fixed costs for Parmainfanzia are, therefore, almost insignificant.

Therefore, overall speaking, the choice of such an organizational structure enables extremely bearable service costs to be kept.

This allows Parmainfanzia to practice tariffs that are lower (by 22% for nursery schools and 27% for kindergartens) than the full cost the Municipality would have to sustain with the in-house production.

FULL COST FOR CHILD*	In-house municipal production	Parmainfanzia
Kindergartens	€ 801	€ 622
Nursery schools	€ 548	€ 402

* Costs calculated when Parmainfanzia was first established

On the contrary, the tariffs applied to users are determined by the Municipality, according to the “Contract of Service”, in order to grant citizens a fair access to the services.

This way, any risk of monopolization of the service is avoided, as far as access, just like it used to be, is actually regulated by the Municipality.

Parmainfanzia is just entitled to submit a modification of the tariffs to the Municipal Assembly, namely the competent body that can evaluate these proposals and decide consequently.

Overall speaking, what is important is that, differently from the traditional contracting-out models, cost sparing does not lead to any quality decrease nor loss in terms of allocative efficiency, given the active presence and substantial control played by the Municipality in Parmainfanzia.

5.5 The impact on citizen - consumers: the perceived quality as a measure of services effectiveness

The reaction of consumers to the creation of Parmainfanzia has been rather complex, since the perplexities were numerous and of various nature.

Independently from reactions influenced by political ideologies, the greater concern related to the full privatisation of the service.

This, as pointed out above, derived from the appearance of a “cultural barrier” on the basis of which the public nature of the service was associated to the legal nature of the delivering agency, and was there despite the fact that consumers’ satisfaction (for those structures already managed by the private partner) was remarkably high.

Such resistance, however, has been easily overcome by demonstrating, from the very beginning, that with Parmainfanzia the accessibility to the service would not be limited, or its fairness reduced, precisely thanks to the settled conditions and the clear division of functions discussed before.

A further “psychological guarantee” was provided by the choice of a public figure for President.

The latter could then be replaced with some person who had more technical competences, and who belonged to the private sector or to this field of activity.

Other resistances came from consumers who were already using the services contracted-out by the Municipality, and whose satisfaction was, as mentioned above, quite high.

These were afraid of a “devaluation” or a bureaucratisation of the service, especially in organizational terms.

Facts have on the contrary proved such worries to be wrong, so that now in Parma, from the families’ point of view, there seems to be no difference between using a service managed by Parmainfanzia or by the Municipality.

The joint attention to the issue of quality certified by ISO 9001:2000, leads to a constant improvement of all the underlying processes: starting from the analysis of the needs and expectations of internal and external customers, continuing with the appropriate actions to be taken and the involvement of the organization at all the levels, to the measurement of the perceived quality and the results achieved.

All this in the attempt to provide the offer with all the necessary improvements.

Everything is thus achieved by delineating and assessing the communicational channels with consumers, which shows what the organization is able to grant besides the actions undertaken.

The outcome of all this is the improvement, rather visible, of the perceived quality of municipal services, an improvement which every year is measured in relation to various dimensions.

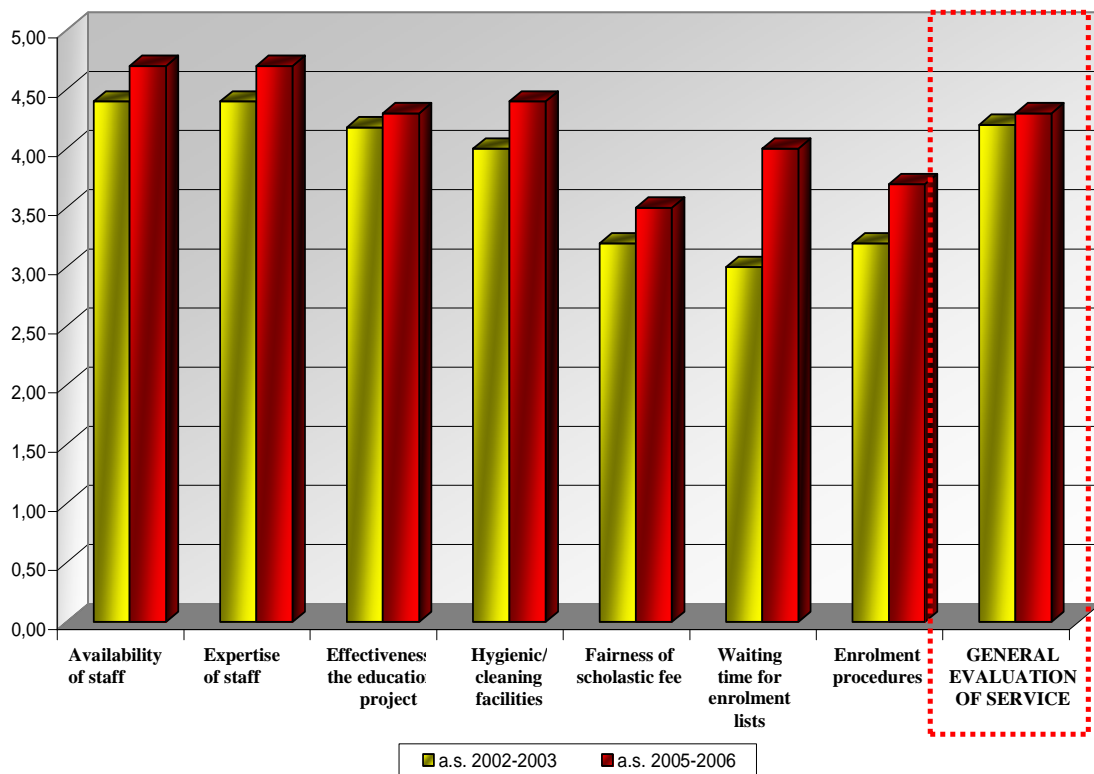
Both Parmainfanzia and the Municipality carried out a survey through questionnaires to the families, where these were asked to evaluate the different components of the service.

The evaluation the survey requires is twofold, in the sense that it tries to record both the relative importance of each component and its actual assessment.

As a result, a higher awareness of those aspects of the service to which consumers give priority is developed, and the strengths and weaknesses of the service identified.

As the data provided by the Municipality suggest, those attributes that consumers considered more relevant, have undergone an increase in terms of satisfaction, from the moment of Parmainfanzia constitution until now.

Fig.6- Results of a survey on perceived quality of Municipality educational services



And such a growth is even more meaningful in relation to those factors considered most problematic, when Parmainfanzia was constituted.

Time individuals have to wait to obtain the results of enrolment requests; congruity of fees; and evaluation of enrolment procedures, are indeed the principal determinants of the accessibility of the service, principally managed by the Municipality, which are improving but still represent important concerns to be carefully considered.

The strengths related to the human resources and the effectiveness of the educational project jointly defined, are undoubtedly evident.

As a result, we can observe an increase of the general evaluation of the service that, considering the peculiarity of the purposes pursued by the mixed enterprise, can undoubtedly represent a significant indicator of the company's performance, that goes beyond the economic and financial statements of a common joint-stock company.

5.6 The financial and economic results as key indicators of company productivity.

The most singular characteristic of a company such as Parmainfanzia lies in the fact to be a joint-stock company, therefore profit-seeking by definition, whose owners pursue an institutional non-lucrative goal on the other side.

The choice of such a juridical form derives from the necessity to run an entrepreneurial activity able to operate in accordance with the principle of economic efficiency, as intended as the congruity between inputs and quantity/quality of satisfied needs.

For a company pursuing a public goal, this concept is not narrowed to a mere comparison between positive and negative components of income.

This is because the social mission of such an institution drives to an evaluation of efficacy strictly related with that of effectiveness, since the priority is to produce social goods, which answer to community needs.

Regarding the concept of effectiveness, from the analysis conducted and described as above, it comes up as Parmainfanzia can actually produce services able to satisfy the demand of the referring local community.

To judge its efficiency would be however harder, or anyway less transparent, if the juridical form was not that of a joint-stock company.

Here in fact, the legal obligation to report in detail all business facts in the apposite financial statements, makes the evaluation of the economic performances of the company more linear.

Moreover, for Public Administration, the absence of measurement mechanisms of the utility and value produced out of the inputs employed, often acts as a "shield" against the assuming of the adequate responsibility on results by people managing the organization of the service.

This problem is not present in Parmainfanzia, since the formula of the stock company has as intrinsic purpose that of reaching an income amount, which should at least cover and remunerate the capital invested.

This makes easier to work efficiently, as necessary condition for the durability of the company.

This is why, in Parmainfanzia, the analysis of company performances should be based, in primis, on the “real” results of the entrepreneurial activity, such as quality and quantity of services delivered.

Without keeping however from achieving positive economic results, that is an irreducible condition for company survival.

Actually, Parmainfanzia seems to be in the case.

Analyzing last economic and financial results, in fact, it is evident how the operative income kept being positive and constantly growing over the last years.

Even not being huge amounts, the fact to produce positive net incomes has not to be taken for granted.

Indeed, these incomes come out from a service that is intrinsically not that much rewarding, and moreover delivered in conditions of accessibility to the highest possible number of citizens, with a funding Municipality liable to strict financial limits for expenditure.

Furthermore, it seems interesting to note how both revenues and operating costs have increased by 40% only in the last year.

Without doubt, this is index of a dynamic entrepreneurial activity, which is growing in both quantitative and qualitative terms.

From the last balance sheet there comes out also an increase of fixed assets, towards an increase of partner liability accounts (+40%).

That is a sign of the fact that partners are trusting this activity and continuing to invest their own resources.

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