Evolutions and Limits of New Public Management—Inspired Budgeting Practices in Italian Local Governments

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In Italy, New Public Management (NPM)-inspired reforms have been mostly legislation-driven. For Italian Local Governments (LGs), one of the most significant reforms was the introduction, in 1995, of an "Executive Management Plan" (EMP). The EMP has been interpreted and applied by Italian LGs differently across space and over time. Some LGs have introduced it only formally. Others have interpreted it as a tool to define individual managers's spending authorizations. Only some have viewed it as a building block of a wider management control system. Over time, LGs have since been making continuous changes to their budgeting systems, without yet reaching a new steady state.

INTRODUCTION

Worldwide, innovations in accounting systems have played a central role[1] in the public-sector reforms which have taken place over the last decades under the umbrella term of New Public Management (NPM).[2] However, gaps between intended and actual effects of the changes have often emerged.[3] Reforms, moreover, have taken on divergent features

1. Olov Olson, Christopher Humphrey, and James Guthrie, "International Experiences with "New" Public Financial Management (NPFM) Reforms: New World? Small World? Better World?" in *Global Warning: Debating International Developments in New Public Financial Management*, eds. Olov Olson, Christopher Humphrey, and James Guthrie (Oslo: Capelen Akademisk Forlag As, 1998), 18; Irvine Lapsley, "Accounting and the New Public Management: Instruments of Substantive Efficiency or a Rationalising Modernity?" *Financial Accountability and Management* 15, no. 3/4 (August/November 1999): 201–7.

2. Christopher Hood, "The New Public Management in the 1980s: Variations on a Theme," *Accounting, Organizations and Society* 20, no. 2/3 (1995): 93–109; Christopher Hood, "A Public Management for All Seasons," *Public Administration* 69 (Spring 1991): 3–19.

3. See, for example, Mary Bowerman, "The Public Sector Financial Management Reforms: Confusions, Tensions and Paradoxes," in *Global Warning: Debating International Developments in New Public Financial Management*, eds. Olov Olson, Christopher Humphrey, and James Guthrie (Oslo: Capelen Akademisk

in different countries and are likely to follow differentiated patterns and produce contrasting effects in different types of public organizations.[4]

The Italian public sector has also been significantly exposed to NPM-inspired reforms. The Italian approach to NPM has been characterized[5] as legislation-driven, top-down, prescriptive, and comprehensive. This approach is clearly consistent with the Italian public sector's strong legalistic tradition and bureaucratic culture. Moreover, at least in principle, it could help curb internal resistances to change and produce quicker results. At the same time, however, it is particularly exposed to the risk of generating opportunistic behaviors, formalistic consent, and only transient effects.

This paper analyzes the features of Italian NPM with specific respect to one level of government, that is, Local Governments (LGs), and one initiative, that is, the reform of LG's budgeting systems. The emphasis is on a 1995 legislative provision introducing an "Executive Management Plan" (EMP), which could theoretically serve as a management budget, assigning objectives and resources to each responsibility center. The purpose of this paper is to present how the EMP has been interpreted and applied by Italian LGs.

The empirical section is based on a number of case studies carried out in the last six years,[6] as well as a 2004 survey of all LGs with populations above 40,000.[7] The results do confirm the prevalence of a formalistic approach, with a major qualification: one piece of legislation that applies to all LGs above a certain size has induced different behaviors across space and over time. Across space, the EMP has been applied very differently by different LGs. Some have introduced it only formally. Others have interpreted and used it according to the traditional paradigm of government accounting, that is, as a tool to define individual managers' spending authorizations. Only some have viewed it as a building block of a wider management control and personnel evaluation system, and not always successfully. Over time, LGs have since been making continuous changes to their budgeting systems, without yet reaching a new steady state.

(footnote Continued)

Forlag As, 1998); Henk J. Ter Bogt and G. Jan van Helden, "Accounting Change in Dutch Government: Exploring the Gap Between Expectations and Realizations," *Management Accounting Research* 11, no. 2 (June 2000): 263–79.

4. Christopher Hood, *The Art of the State: Culture, Rhetoric and Public Management*. (Oxford: Clarendon Press, 1998); Olson, Humphrey, and Guthrie, "International Experiences with "New" Public Financial Management (NPFM) Reforms," 20.

5. Giuseppe Marcon, "The State of Public Management and Public Management in Italy: Lessons for Research Methodology"(paper presented to the International Public Management Network's Workshop on "Assessing Alternative Research Methodologies in Public Management," Siena, July 1999): 21.

6. Cf. Eugenio Anessi-Pessina and Laura Caccia, "Il disallineamento tra documenti contabili, struttura organizzativa e sistemi di gestione degli enti locali," in *Responsabilità e trasparenza nella gestione dell'ente locale*, eds. Eugenio Caperchione and Fabrizio Pezzani (Milan: EGEA, 2000): 23–60; Laura Caccia and Ileana Steccolini, "Accounting and Organizational Change in Italian Local Governments: What's beyond Managerial Fashion?" *Critical Perspectives on Accounting* (forthcoming).

7. Luca Buccoliero, Greta Nasi, and Ileana Steccolini, "Sistemi contabili e di controllo degli Enti Locali," unpublished research report, CERGAS, Bocconi University, Milan, 2004.

The remainder of the paper is organized into five sections: (i) a short background on Italian LG's reform processes, (ii) the main contents of the ongoing reforms of LG's budgeting, accounting, and reporting systems, (iii) the empirical assessment of LG's actual behavior, (iv) a brief discussion, and (v) conclusions.

BACKGROUND: ITALIAN LG'S REFORM PROCESSES

Italy has four levels of government: the central government, 20 regions, 103 provinces, and about 8,100 municipalities. Each level has jurisdiction over several issues and activities. Provinces and municipalities are often referred to as "LGs."

Each municipality has a mayor, a cabinet, a city council, and a professional bureaucracy. The mayor is the head of the executive, is elected directly by the population, and appoints the members of the cabinet. Recent legislation also allows him/her to appoint a CEO (or "City Manager") with general-management responsibilities. The city council is the LG's "legislature" and is also elected directly by the population. Municipalities are allowed to raise local taxes and charge tariffs for the services they provide, but a significant percentage of their inflows is still accounted for by transfers from higher levels of government. Provinces have a similar system, although their taxing authority is much more limited.

Since 1990, Italian LGs have been affected by NPM.[8] The Italian public sector has been subjected to a general claim for higher transparency in the use of public resources and increasing accountability for the quantity and the quality of the services provided to constituents. The ideas of managing by results, of "letting the managers manage," of introducing a "managerial culture" and a "managerial model"[9] have become extremely fashionable and, at least to some extent, have made a dent in the traditional bureaucratic culture of the public sector. These developments were translated into (and thus significantly amplified by) legislation which (1) provided LGs with greater organizational and financial autonomy, coupled with increased accountability;[10] (2) increased managers' autonomy and accountability in their relation with politicians; and (3) introduced incentives for contracting out and privatization of activities. More specifically:

- The range of competencies attributed to LGs has been significantly widened. The first important reform law (Act 142 of 1990) defined the municipality as the building block of democratic representation and charged it with "representing

8. Marcon, "The State of Public Management and Public Management in Italy."

9. Elio Borgonovi, *Principi e sistemi aziendali per le amministrazioni pubbliche*, 4th ed. (Milan: EGEA, 2004) (1st ed.: 1996); Riccardo Mussari, *Il management delle aziende pubbliche — profili teorici* (Padova: CEDAM, 1994).

10. Accountability has been particularly strengthened with respect to LGs' financial conditions. In the past, the Central Government typically picked up LGs' deficits, with obvious undesired incentives. Successive legislative provisions passed in the 1990s have introduced a sort of bankruptcy procedure for LGs.

the relevant community, protecting its interests and promoting its development.'' This anticipated the concept of ''vertical subsidiarity'' and started a process that has recently produced a significant, devolution-oriented revision of the Italian Constitution.

- Correspondingly, LGs have been recognized more autonomy in levying taxes and determining fees for services provided, while witnessing a steady reduction in the amount of transfers from higher levels of government.
- The Maastricht Treaty and later the EU's ''growth and stability pact'' have imposed a strict fiscal discipline on Euroland's governments, which has indirectly but strongly affected LGs.
- The principle of separation between politicians and managers/bureaucrats has been affirmed. Politicians are expected to define policies, assign goals and responsibilities, and assess results, while managers have been recognized the autonomy to manage their own units and even to sign contracts on behalf of their entities.
- LGs have been encouraged to redesign their organizational structures. An increasing portion of managers' compensation has gradually been linked to their position and performance.

LG'S BUDGETING AND ACCOUNTING REFORMS: THE LEGISLATIVE FRAMEWORK

In Italy, the requirements for government accounting, reporting, and auditing are set by national legislation. Applicable laws are different for the central government, the regions, and LGs, but the basic rules have traditionally been similar for all levels.

Italian government accounting has historically been based on the cameralistic model and intended primarily to limit spending. The adopted bases of accounting were obligation[11] and cash. Budgeting was viewed as the only relevant phase of the accounting

11. Under the obligation basis, the budget shows the LGs estimated accounts receivable (on the revenues side) and commitment appropriations (on the expenditures side); the accounting system records the establishments of amounts receivable and commitments, which are then presented in the financial statement. The terminology is drawn from the EUs ''Council regulation (EC, Euratom) No 1605/2002 of June 25, 2002 on the Financial Regulation applicable to the general budget of the European Communities,'' which provides an ''official'' translation of government accounting terms in all EU languages. According to this regulation (art. 71), ''Establishment of an amount receivable is the act by which the authorizing officer by delegation or subdelegation: (a) verifies that the debt exists; (b) determines or verifies the reality and the amount of the debt; (c) verifies the conditions in which the debt is due. Similarly (art. 76) ''The budgetary commitment is the operation reserving the appropriation necessary to cover subsequent payments to honor a legal commitment. The legal commitment is the act whereby the authorizing officer enters into or establishes an obligation which results in a charge.''

Under the cash basis, on the contrary, the budget shows the LGs' estimated cash recoveries and payments; the accounting system records the actual cash recoveries and payments, which are then presented in the financial statement.

cycle, while year-end financial reports were virtually neglected. Bookkeeping was based on the single-entry system, which emphasized budgetary compliance.

In 1995, however, LG accounting (LGA) was significantly reformed by legislative decree[12] (DLgs) 77/95 and made rather different from its central and regional counterparts. The reform's main provisions were the introduction of (i) accruals accounting or, rather, accrual-based *reporting* and (ii) an EMP to supplement the annual legislative budget. LG's accounting system has consequently been structured as follows:

- The traditional cameralistic system remains in force.
- The legislative budget must be structured according to the obligation basis of accounting. It will consequently show the LGs estimated accounts receivable (on the revenues side) and its commitment appropriations (on the expenditures side).
- For LGs with populations above 15,000, the legislative budget must be supplemented by the EMP. While the former is approved by the council, the EMP is prepared and passed by the cabinet. For each of the LG's responsibility centers, the EMP should theoretically (i) establish a set of objectives, (ii) allocate an amount of financial resources, and (iii) assign a set of nonfinancial resources. The section on financial resources is a breakdown of the legislative budget by nature and purpose and is consequently defined on an obligation basis.
- Accounting will recognize revenues and expenditures according to both the obligation basis (that is, in terms of establishments of amounts receivable for revenues and commitments for expenditures) and the cash basis (that is, in terms of cash recoveries and payments).
- Financial reports will similarly show actual revenues in terms of both establishments of amounts receivable and cash recoveries, and actual expenditures in terms of both commitments and payments.
- In addition, financial reports are also expected to include an accrual-based statement composed of a balance sheet and an operating statement. Interestingly, however, the introduction of accrual *accounting* is not mandatory. Alternatively, LGs can derive their balance sheets and operating statements from their cameralistic accounting statements through a complex system of year-end adjustments. A specific reconciliation statement must be included in the overall year-end financial report to reconcile the cameralistic accounting statement with the balance sheet and the operating statement.
- Financial reports must be supplemented by some standard efficiency and effectiveness indicators set by the Central Government.
- LGs are expected to adopt managerial control tools. However, the law does not require an accrual-based budget nor any interim or year-end reports to compare with the EMP.

12. Under Italian Law, Parliament may delegate legislative powers to the Executive on specific matters. The laws enacted by the Executive under these circumstances are called "Legislative Decrees". D.lgs. 77/95 was later incorporated in the Unified Body of Laws on Local Governments (D.lgs. 267/00).

- LGs are encouraged to prepare a "Term-End Statement" showing the Executive's achievements and actions over the five-year (save early elections) elected term.
- An audit committee, appointed by the council, is responsible for auditing the legislative budget and the financial reports.

A further development in the LG legislative framework took place in 1999, when D.Lgs. 286/1999 reorganized public-sector control systems, introducing the principle of separation between (i) controls on compliance, (ii) strategic planning and control, (iii) management control, and (iv) personnel performance evaluation.

BUDGETING REFORMS: LG'S ACTUAL BEHAVIOR

The legislative reforms described in the previous section prompted LGs to start a process of redesign, implementation, and revision of their budgeting, accounting, and reporting systems, whose actual effects are still controversial.

As to the implementation of accrual-based reporting, some empirical analyses show that (i) LGs do prepare their accrual-based financial statements, but many (43.4 percent of LGs with populations above 40,000, where managerial tools tend to be more widespread)[13] have not introduced accrual accounting; (ii) most LGs seemingly pay little attention to their accrual-based reports and view accrual-based reporting as an unnecessary nuisance;[14] (iii) the accrual-based financial statements contain frequent inconsistencies; some items are often omitted while others have unexpectedly large values; the quality of disclosure is rather poor;[15] (iv) cash- and obligation-based information still plays a fundamental role in LG accounting and reporting;[16] (v) external users of the financial reports are virtually nonexistent, with the only exception of the Central Government for expenditure control purposes.[17] LGs are making an effort to introduce new accounting techniques and tools[18] and are currently experimenting, changing, and adapting them. What is still unclear is the actual use of the new tools by managers, councillors, and cabinet members.[19]

13. Buccoliero, Nasi, and Steccolini, "Sistemi contabili e di controllo degli Enti Locali."

14. Eugenio Anessi-Pessina and Ileana Steccolini, "Accruals Accounting in Italian Local Governments: Is It Working? Can It Work?" SDA Bocconi Working Paper No. 87 (Milan: SDA Bocconi, 2003): Eugenio Caperchione, "Local Government Accounting System Reform in Italy: A Critical Analysis," *Journal of Public Budgeting, Accounting and Financial Management* 15, no. 1 (2003): 110–45.

15. Anessi-Pessina and Steccolini, "Accruals Accounting in Italian Local Governments."

16. Caperchione, "Local government accounting system reform in Italy."

17. Ileana Steccolini, "Is the Annual Report an Accountability Medium? An Empirical Investigation into Italian Local Governments," *Financial Accountability and Management* 20, no. 3 (August 2004): 327–50.

18. Riccardo Mussari, *Manuale operativo per il Controllo di gestione dell'ente locale* (Roma: Dipartimento della Funzione Pubblica, 2000).

19. For example, Caccia and Steccolini, "Accounting and Organizational Change in Italian Local Governments."

Turning to the EMP, its role seems to have been interpreted differently by different LGs. Three basic approaches stand out:

- EMP as a formality. Under this approach, LGs perceive the EMP as yet another formal requirement imposed by the Central Government. They consequently adopt an isomorphic[20] behavior: the EMP is formally adopted by the Executive but has no real impact on decision-making. This approach is particularly common where politicians maintain a strong control on day-to-day operations and refuse to implement the legislative provisions concerning managerial autonomy.
- EMP as a tool to circumscribe individual managers' spending authority. LGs downplay the importance of objectives and nonfinancial resources and use the EMP simply to set a ceiling to nature, purpose, and amounts of spending that each manager is allowed to incur on behalf of the LG. The EMP is little more than a breakdown of the revenues and expenditures set in the legislative budget; the breakdown tends to be extremely detailed as the Cabinet tries to limit managers' ability to shift spending across objects (personnel, supplies, services, etc.), organizational subunits, projects, or activities. In other words, the legislative budget is the tool for the council to limit the cabinet's ability to spend, while the EMP, in turn, becomes the tool for the cabinet to limit individual managers' ability to spend. This situation is particularly common where the traditional, "authorizational" approach to accounting remains strong, but managers are powerful enough to force the implementation of the legislative provisions concerning managerial autonomy. The reason why managers want these rules implemented is that they view the EMP not much as a tool that limits their spending authority, but rather as a tool that gives them large spending discretion within specified limits.
- EMP as a managerial budgeting tool. Under this approach, the EMP is intended as a tool for the Executive to negotiate objectives and resources with managers and hold them accountable for their performance. The remainder of this section describes how the EMP has evolved over time under this last approach.

The LGs interpreting the EMP as a managerial budgeting tool seem to have gone through the following phases: (i) introduction, (ii) programming focus, (iii) measurement focus, (iv) personnel evaluation focus, and (v) strategic focus. Very few LGs have reached the last two phases.

In the introductory phase, LGs emphasize the need to review their organizational structures, to clearly define responsibility centers and related responsibilities, to identify the activities performed by each responsibility center, and to start relating inputs with outputs. The other significant achievement of this phase is mostly of a cultural nature:

20. Walter Powell and Paul Di Maggio, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," in *The New Institutionalism in Organizational Analysis*, eds. Walter Powell and Paul Di Maggio (Chicago: University of Chicago Press, 1991).

politicians and managers begin to acknowledge that resources cannot be allocated solely on the basis of mutual partisan adjustment.[21]

In the second phase, the focus is on programming. The responsibility centers, as identified in the previous phase, are involved in a budgeting process. More specifically, they are expected to negotiate objectives and related resources with their politicians and/or CEO. In some cases, the process is mostly top-down, with managers being asked to accept the objectives and resources assigned by the Executive and/or the CEO. In others, it is mostly bottom-up, with managers proposing autonomously their own objectives and requesting resources, and the Executive ratifying their decisions. As time proceeds, an intermediate solution tends to prevail, with politicians and the CEO setting guidelines, line managers formulating proposals, and the two parties bargaining to reach an agreement.[22] The major achievement of this phase is usually coordination across organizational units. Governments are often paralleled to pipe organs, with organizational units as the individual pipes. The different pipes (i) tend to be too narrow in scope and too focused on specific administrative acts to satisfy an entire area of need; (ii) may have been established for reasons other than a rational division of labor; (iii) do not interact with one another; (iv) develop different informal norms and cultures; and (v) are headed or overseen by a member of the Executive, with actual coordination occurring only at the cabinet level. The budgeting process helps clarify who does what and who needs what from whom. The main limit of this phase of development of the EMP is the lack of control, measurement, and evaluation. LGs generally lack the tools and competencies to express objectives in measurable terms and later to collect and report data on actual inputs and outputs. Revealingly, among LGs with populations above 40,000, the EMP contains objectives in 90 percent of the cases, but not necessarily for all responsibility centers and all relevant dimensions of performance. These objectives, moreover, are operationalized into specific indicators only in 72 percent of the LGs; the use of indicators is even lower (58 percent) in interim and year-end reports. This clearly weakens the credibility of the EMP. A frequent feature of this phase is "do-it-yourself measurement": responsibility centers are requested to produce periodical assessments on their own activities; these assessments are usually vague, merely descriptive, scarcely related with the EMP, and impossible to cross-check with independent sources; the Financial Department edits them and sends them back to the line units as management control reports.

Measurement is tackled in the third phase. The first area of intervention is the accounting system, and specifically the introduction of management accounting. The most common choice in this regard is an "obligation-based management accounting system" that breaks down cameralistic accounting data by detailed line items and by responsibility centers and subcenters. Seldom (17 percent of those with populations above

21.C.E. Lindblom, "The Science of Muddling Through," *Public Administration Review* 19 (Spring 1959): 79–88.

22. See also Anessi-Pessina and Caccia, "Il disallineamento tra documenti contabili, struttura organizzativa e sistemi di gestione degli enti locali."

40,000) do LGs make the alternative choice, that is, set up a standard, accrual-based management accounting system. The reason for this behavior is threefold. First, as mentioned above, many LGs have decided not to introduce accrual accounting but to derive their balance sheets and operating statements from their cameralistic-accounting statements through year-end adjustments. They consequently lack an accrual accounting system on which to base standard management accounting. Second, even in the presence of accrual accounting, the EMP uses the obligation basis of accounting and only the associated, obligation-based measures and reports can ensure comparability. Third, again even in the presence of accrual accounting, data are initially collected and recorded by cameralistic accounting and then transferred to the other subsystems. It is consequently easier to feed management accounting directly from cameralistic accounting.

Measurement of outputs is a more recent concern. The issue here is to identify indicators that are both qualitative and quantitative, sufficiently aggregate, measurable, related to controllable objectives, and acknowledged as meaningful by all relevant parties, in order to correctly and comprehensively mirror the activities of responsibility centres. This task is far from complete, especially for inherently governmental activities (e.g., local police, urban planning). LGs still rely on long lists of (i) actions to be performed and/or (ii) very detailed indicators that reflect employees' workloads rather than outputs and outcomes (e.g., amount of paperwork to be processed by each employee, when the goal is clearly not to increase or reduce such amount, which is exogenously set by laws and/or demand, but rather to reduce processing times and errors). From an organizational viewpoint, larger LGs have set up specific Controller's offices, separate from the traditional Financial Departments, to establish, develop, and maintain the management control system. Such offices are responsible for gathering data and preparing reports, but line managers often see the former activity as a nuisance and the latter as a useless exercise, since reports are late, generic, "one size fits all," not user-friendly. At this stage, no explicit or implicit incentives exist for managers to use the reports.[23]

The fourth phase establishes a link between the planning and control system on the one hand, the personnel management systems on the other. As mentioned in the background section, the 1990s reforms have linked a portion of managers' compensation to their position and performance. The objectives set in the EMP provide an obvious basis to determine the performance-related component of pay. This seems a sensible development, as it helps align personal and organizational goals, even if the effectiveness of merit pay in governments is still questioned. It also lends credibility to the management control system, which finally can significantly and tangibly affect individual managers. Two major issues must nevertheless be mentioned. On the one hand, performance indicators are still very rough and partial; a strong link between them and performance-related pay often ends up in goal deflection; performance indicators are often reinter-

23. On the missing link between reporting and budgeting in public organizations, see S. Hogheim, Norvald Monsen, R.H. Olsen, and Olov Olson, "The Two Worlds of Management Control," *Financial Accountability and Management* 5, no. 3 (1989): 163–78.

preted in a bureaucratic fashion, that is, as constraints to comply with, rather than objectives to pursue. On the other hand, a large merit-based pay differentiation for same-level managers is still inconsistent with dominant public-sector culture. A strong connection between management control and employee compensation systems generally leads to the assignments of "easy" objectives for everybody.

In response to the shortcomings emerging from the use of the EMP during the previous phases, some LGs are currently trying to refine their budgeting and control systems by adopting a "strategy-oriented" perspective, which emphasizes (i) a medium-long-term orientation on outcomes and effectiveness; (ii) a shift in the focus from the objectives of single responsibility centers to the strategy of the LG as a whole; (iii) the importance of reporting on different dimensions of the organizational and intraorganizational performance; (iv) an increased attention toward external constituents' (stakeholders') needs and participation both at the programming and the reporting/communicating stages. Only a very small number of generally large LGs have currently reached this last phase of development, and its actual effects are yet to be observed. However, the "strategic" approach to the EMP is being translated into the adoption of "tableaux de bord" such as the Balanced Scorecard; LGs are making efforts to define "missions" and "visions" which should inspire the planning and budgeting processes and direct managers' actions toward a common end.

DISCUSSION

The EMP has the potential to finally relate resources, results, and responsibilities in LGs. In some LGs, this potential has been fulfilled. Indeed, some LGs' reaction to the EMPs technical limits has not been to give up, but rather to supplement it with more advanced planning and control tools. In many LGs, however, the EMP has been interpreted as yet another formality or, at best, a tool to circumscribe individual managers' spending authority. Even the governments which saw it as a stepping stone for the introduction of management control have often failed. This has several, concurrent causes.

The law regulating the EMPs technical features is rather vague with respect to outputs, outcomes, and nonmonetary indicators in general (including exchanges of services between responsibility centers, which are critical for coordination purposes). This may be appropriate in that it leaves room for local adaptations. In organizations permeated by bureaucratic culture and undergoing financial difficulties, however, it also provides a pretext to ignore the nonfinancial dimensions of performance.

The law is much more specific with respect to the financial section of the EMP. Its provisions in this regard are both mandatory (and thus impossible for individual LGs to improve) and questionable. Most issues stem from the EMP being a breakdown of the cameralistic budget. As such:

- It sets spending limits instead of defining the resources that responsibility centers are expected to use in order to achieve their objectives.

- It focuses on purchasing responsibilities (how much the purchasing department is allowed to spend in the coming year) as opposed to consumption responsibilities (how much of the purchased supplies each responsibility center is expected to use);
- It encourages (although by no means mandates) a process whereby the LG first defines its overall spending limit (in the cameralistic budget), then allocates spending authority to responsibility centers, and finally determines what each responsibility center should achieve with such resources. Outputs and outcomes, in other words, come last. In addition, since organizational structures tend to be highly fragmented, responsibility centres are seldom responsible for overall objectives, but rather for specific actions that should contribute to the attainment of objectives.
- It may actually increase this fragmentation, especially when politicians use it to maintain a strict control over managers, by breaking down the cameralistic budget into very detailed EMP voices, each granting a narrowly delimited spending authority to a given manager. For example, what in the budget is the spending authorization for swimming-pool supplies can be broken down into multiple voices by nature (different voices for different kinds of supplies) and purpose (different voices for different swimming pools or for the swimming pools of different neighborhoods).

Three further elements have also hampered the successful adoption of the EMP. First, the NPM-inspired reforms of the 1990s have mostly been tailored for large LGs which, however, are rather few (72 percent of Italian municipalities have a population of 5,000 or less, 87 percent of 10,000 or less). One of the basic ideas behind the EMP, for instance, is that politics and policy-making should be distinct from management, with politicians setting goals and objectives, assigning responsibilities, and assessing results, and managers finally free to manage. Small LGs, however, have few top and middle managers and professionals, and have traditionally relied on politicians to cover such roles: so much so that those with populations below 15,000 have in fact been exempted from the preparation of the EMP.

Second, following the Maastricht Treaty on European Monetary Union and, later, the European "growth and stability pact," Italian government policies in the last decade have been dominated by the need to contain expenditures rather than to improve efficiency and effectiveness. Fiscal constraints, moreover, tend to discourage decentralization. This has further reaffirmed the key role of traditional cameralistic accounting, whose main purpose has always been to centrally control government spending. Since 1990, decisions have in fact been made that improved LG's financial conditions, but these decisions were usually adopted on the basis of the information provided by the traditional accounting system.

Finally, performance indicators are structurally hard to define and even harder to measure, especially for inherently governmental activities. Hence, objectives have often been defined in a vague and partial fashion, focusing on monetary measures and possibly efficiency indicators while disregarding equity, effectiveness, and quality. Similarly, measurements have often been reduced to "do-it-yourself" assessments by individual line units. Under these circumstances, governments clearly face a dilemma. On the one hand, they can emphasize the importance of the objectives set in the EMP, with a significant risk of goal deflection: instead of measuring what is important, they end up lending importance to what is measurable, and induce their managers to behave accordingly. Alternatively, they can downplay such objectives, at the risk of further jeopardizing the EMPs relevance.

In the background, however, what looms large is public-sector culture.

The Italian public sector is still dominated by bureaucratic principles and incremental decision-making. This has a number of intertwined and mutually reinforcing implications that strongly limit the impact of managerial reforms in general and the EMP in particular.

First, the bureaucratic model notoriously focuses on formal compliance. It amplifies organizational inertia, reinterprets all reform attempts according to its canons, implements them in formalistic ways, and dooms them to failure. Unlike previous initiatives, the NPM-inspired reforms of the 1990s did change the incentives for entities (e.g., greater fiscal responsibility) and individual managers (e.g., merit pay). However, they clearly did not provide the major external shock that is generally needed to produce revolutionary change. As a result, Financial Departments adopted a "coercive isomorphic" behavior[24] whereby they did conform to the requirements of national legislation, but with no or little impact on widespread routines and behavior. The end result was a *decoupling*[25] between formal and actual practices.

Second, Italian NPM reforms were not autonomously initiated by individual government entities according to their goals and needs, but rather imposed by national legislation during the 1990s.[26] When reforms are top-down and legislation-driven, they are even more likely to impact only on formal rules, without affecting informal routines.[27]

Third, under the bureaucratic model, even competent and motivated employees tend to focus on their specific tasks, to pursue excellence within their own domains, with little regard for the strategic and organizational impact on the entity as a whole. To the extent that governments are professional bureaucracies,[28] moreover, employees seek approval from their professional peers and associations rather than from their organizational superiors. Some Financial Departments and Controller's Units, therefore, did go beyond

24. Powell and Di Maggio, "The Iron Cage Revisited."

25. J. W. Meyer and B. Rowan, "Institutionalized Organizations: Formal Structure as Myth and Ceremony," in *The New Institutionalism in Organizational Analysis*, eds. W. Powell and P. Di Maggio (Chicago: University of Chicago Press 1991).

26. Marcon, "The State of Public Management and Public Management in Italy."

27. See John Burns and Robert W. Scapens, "Conceptualizing Management Accounting Change: An Institutional Framework," *Management Accounting Research* 11, no. 1 (March 2000): 3–25.

28. Henry Mintzberg, *Structure in Fives. Designing Effective Organizations* (Englewood Cliffs, NJ: Prentice-Hall, 1983).

formal compliance, but ended up adopting another kind of isomorphic behavior ("normative isomorphism"), that is, seeking conformity with external best practices as prescribed by the managerial literature, adopted by the most "advanced" LGs, or recommended by other accountants. Once again, in a typically bureaucratic fashion, what was supposed to be a means (the accounting system) to an end (the organization's performance) became an end in itself, and what was supposed to be a service unit (the Financial Department, the Controller's Units) became self-referential. This seems consistent with the claim[29] that NPM reforms tend to be based on recipes and standardized technical solutions, thus often becoming solutions in search of problems.[30]

Only rarely did Financial Departments and Controller's Units try to affect the organization's actual performance, using external events and pressures as a pretext for their reforming agendas. Among those who tried, the most common mistake was to use the EMP as a sort of "magic bullet" pursuing different and often conflicting goals: strategic planning, management control, personnel evaluation, expenditure control, and so on.

CONCLUSION

At the current state of implementation, Italian NPM has succeeded in affecting public-sector culture, relaxing bureaucratic constraints, introducing management tools and adapting them to public-sector peculiarities, providing managers with a wide range of technical solutions to fit their specific needs. At the same time, however, many innovative management tools have been reinterpreted according to the traditional bureaucratic paradigm, thus reducing their effectiveness, if not making them outright irrelevant.

This has been particularly true for techniques imposed by top-down legislation, like the EMP. Unsurprisingly, LG's responses to its introduction have been mostly formalistic. These responses, however, have not been uniform across the board: a law directed at all LGs above a certain size has produced a differentiated range of behaviors. Many LGs have introduced the EMP only formally. Others have used it simply as a tool to define individual managers' spending authorizations. Only some have linked it to the development of a wider management control and personnel evaluation system, and not always successfully. The effects of the 1995 legislation, moreover, have been long-ranging: LGs have since been making continuous changes to their budgeting systems. In fact, LGs have generally been more successful when opting for an incremental and evolutionary process of change, that took internal and external conditions into due account. In most cases, this implied a better use of traditional tools, coupled with a view of the new tools (including the EMP) as a way to gradually change organizational culture and only eventually to technically support decision-making.

29. Hood, *The Art of the State*.

30. Richard M. Cyert and James G. March, *A Behavioural Theory of the Firm* (New York: Prentice-Hall, 1963).

These results suggest a number of conclusions. Innovative legislation may be a necessary condition for change, but certainly not a sufficient one, even in countries dominated by a legalistic culture. Legislation, moreover, may not be the best way of fostering change, since it often prevents individual organizations from adapting managerial tools to their specific needs. When innovative legislation does foster change, finally, this often happens not because it has the strength to impose such change, but because it is used by reform-minded politicians and managers as a pretext to push forward their innovative agendas.

The overall implication of this diagnosis is that research, training, and policy-making should stop focusing on the technical features and theoretical virtues of specific managerial tools, place less faith in legislation alone, and invest more on the identification and reinforcement of actual change drivers. Among these, three stand out. First, abilities. Professional abilities are satisfactory, but managerial ones are much scarcer. In fact, most managers view themselves as professionals: the neutral bureaucrat for the old guard, the technical specialist for the new one. Second, willingness. Relaxing legal constraints and spreading managerial abilities are pointless if incentives are lacking, and organizations and individuals are not willing to change. The issue of incentives is particularly complex because the performance of LGs is multidimensional and ultimately measured by political consensus, which does not necessarily reflect efficiency and effectiveness. Third, power. Legal constraints have indeed been relaxed, but LGs are still tied by the presence of multiple stakeholders with conflicting expectations, the burden of past choices, a well-entrenched bureaucratic culture. Some of these obstacles are inherent to public-sector organizations: the ability to live with them is what distinguishes public from private managers. Other obstacles should be further reduced in the future. Many LG politicians and managers, however, tend to overstate the constraints they face as they fail to identify, do not know how to use, or are unwilling to use their degrees of freedom. This leads back, at least to some extent, to the issues of ability and willingness.