

Non-Profit Public Participation: Empirical Evidence in Italy

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Abstract: The emergence of assets identified and separated, not recognized in the financial statements of the subsidiaries, the problems of homogeneity of the summary data, the difficult identification of share of net consolidated attributable to minority interests are all factors that help fuel the degree of complexity of aggregation. This is important to analyze the influence of the group companies participated in non-profit for the purpose of obtaining homogenization in the group. The study aims to analyze how the non-profit companies which have the nature and characteristics substantially different from the profit companies, perceived control and membership in the local public group.

Key words: Consolidated financial statements, non-profit, subsidiaries, municipalities, identified

INTRODUCTION

In Italy, the issue of outsourcing of functions and communal services is a central issue in policy development and socio-economic growth of the territories, not only with reference to the possibility of ensuring favorable conditions and “competitive” for the establishment of productive activities or to provide an adequate response to the needs of the communities administered but also as a tool to allow you to highlight and exploit the untapped potential of the territory.

The changing regulatory framework, the use of more and more extended forms of outsourcing of functions and services, the process of liberalization and privatization in place, puts local authorities in a position of the main actors of development who are confronted with the market both as performers a demand for services demanding and constantly evolving, both as regulators and coordinators of the offer, identifying the most appropriate strategies for achieving the goals of efficiency, effectiveness and quality of management. These externalities are in the form of investments profit and non-profit organizations (foundations associations, etc.).

The municipalities should be the “directors”, the parent company, the planning and control of its functions and services, thus introducing the system of local new concepts of governance of public policies, meaning those set, elastic and multiform, means for the exercise of authority and management of public resources, not related only to rules of administrative law or only to the principles of good administration. The control is carried out recently on a trial through the introduction of the consolidated group’s local audience.

Starting from the path definition in the consolidation of the public group of local non-profit companies facing complex problems related to the peculiarities of the mechanisms of governance and control spread in the third sector. The recent publication of a number of national and international accounting standards that deal with the matter tends to direct the interpreter to an expansion in the scope of consolidation. The boundaries accounting appear to be close to those of the economic group identified through the application of business metrics. It should, therefore, interpret and represent management peculiar phenomena such as participation and its weight by the company publishes local parent, donations of labor services and goods items or the promises of intercompany.

The creation of subsidiaries by the local public companies is a common phenomenon at the European level ‘last decade, all companies, even those of smaller size, have created ad hoc companies that offer essential services to users-citizens, in the belief that so not only the needs are met in a more accurate, thanks to the expertise available to them but also that it is possible to better rationalization of resources, endemically poor (Bel and Fageda, 2006; Callan and Thomas, 2001). In other words, the extensive use of outsourcing of local public services is linked to an attempt to decrease public spending, looking for solutions to improve the overall performance and the expansion of the possibility of raising funds on the capital market (Shleifer, 1998). In Italy, often, the outsourcing of local public services, through participatory bodies is a response to spontaneous and uncoordinated impromptu needs arising from critical budget and above all by difficulties in the EU meet its obligations in

the field of public finance. The exponential growth of the subsidiaries that manage local public services has meant that today municipalities are located at the top of a real holding companies that provide services to citizens. Therefore, the role of the town is no longer a mere provider of public services but a parent company which holds the stakes of corporations, holder of public services (stockholder) and shareholder (stakeholder) of those same companies, maintaining. However, the role of institutional representative of the interest of the community administration (Lopez *et al.*, 2006). In this regard, it is significant relapse of outsourcing, performed using participatory bodies in terms of organizational responsibilities, management, accounting, economic and financial local authorities. From a financial and accounting, governance aware not possible without tools that ensure transparency and materiality, providing a correct and sufficient information for the different stakeholders on the reliability of the management of the local authority and the soundness of the distributing companies. In this regard, it is clear the inadequacy of the budget of the local authority to provide comprehensive information on the economic, financial and capital (Grossi and Mussari, 2008). In fact, the results of such management, outsourcing considered by many organizations participated SPL, do not appear in the annual accounts municipal public. This gives rise to the need for a strumentin able to represent in a clear and comprehensive to stakeholders the business of Hayes, Liguori, McNabb and the resulting financial commitment. To the legislature and literature such tool is the consolidated financial statements. Currently, the preparation of the consolidated group of the local authority has experimental nature: the non-compulsory resulted in a low uptake of the document and a high heterogeneity in the first applications. This research aims to analyze the reflections on the subsidiaries not profit by their nature divorced from logic and control group in the light of the introduction of a vision of local public groups and the consequent obligation of the consolidated financial statements. Were taken, therefore, consider the consolidated documents related to the 10 local public groups who first realized the consolidated financial statements.

And it have been identified their portfolio companies are non-profit 243 which has undergon eaqualitative questionnaire which aims to identify first the sector, the service, the size of income and balance sheet. Were then asked questions about the reference group on the directives imposed by the group and on related charges. The responses received were 74.

MATERIALS AND METHODS

Theory and literature review: The company publishes regional not always acts directly through its own facilities but increasingly involve third parties, regardless of whether they are public, private or non-profit. The basic objective of creating value for the community will be pursued so directly, in the first case or indirectly, if the company makes use of subjects third parties for the provision of the service, taking on a role as regulator. The innovations of micro-management, instead, focused on the relationship between politics and leadership, methods of organization and management of human, material and financial resources as well as systems for measuring, control and communication of the results of government. We observe a gradual shift from bureaucratic control based on respect for formal procedures to measure results more and more oriented to the output and above all to outcome. This involves, on the one hand with the need to better define the spheres of activity and responsibility of policy and administration but then also the need to modernize the information systems accounting and non-accounting of government to make them suitable to generate the information, especially economic, necessary to meet the new demands of information both internal (management control, evaluation of management and strategic control) and external (financial statements of mandate, budget social, economic and financial reporting).

The contracting out is an effective organizing principle only if it is accompanied by a thorough review of the control systems or if within the same contract are expected and then properly exercised control mechanisms of the results. Therefore, a central role must be assigned to the so-called performance monitoring that is no longer or not so oriented toward the interior (management control) but to the outside (control of the operator) and that is not always directly exercised by the public administration contractor but it can be at least in part and for some dimensions of the result-quality, entrusted to the users for using of well-proven mechanisms such as for example, services charter. To the extent that public authorities entrust their productions outside the performance monitoring becomes in essence, also a mechanism of accountability. There are many dimensions of result that can be the subject of performance monitoring:

- Resource efficiency
- Effectiveness in achieving the financial targets and of the obligations under the contract

- Durable economy in the relationship between costs and revenues
- Financial sustainability
- Realization of investment plans
- Proper application of tariffs
- Fairness and equal treatment of users
- User satisfaction

The discharge of the functions of control of the operator has some problematic. First as noted, governments often lack the skills to engage in correct this form of checks being the culture of these organizations traditionally oriented towards a type check formalistic rather than on results. However, it is not uncommon for the opposite hypothesis, namely that it is the managing entity to be deficient structures and control mechanisms so it is difficult for the manager to provide the information that public administrations require.

The process of externalization of local authorities which resulted in the loss of significance of the information contained in their financial statements dating back to the '90s (Grossi and Reichard, 2008). At European level, the phenomenon of contracting-out features in most cases the lack of assessment of the results obtained by actually outsourced, so the impact in terms of financial and efficiency on the performance of the local authority is difficult to quantify (Boyne, 1998; Pina and Torres, 2001).

With reference to the relationship between the stakeholders, according to the stakeholder theory, there is a close link between voluntary disclosure and public expectations (Friedman and Miles, 2002). Each category of stakeholders in contact with local authorities presents specific information needs; However, it is possible to identify a common denominator associated with the possibility of survival and local development in other words to the overall sustainability of corporate performance (Hespenheide *et al.*, 2010). In particular, the financial sustainability requires that the public management achieve a financial surplus that can feed the natural process of development and enable the company to adapt to constant changes in the economic environment nationally and internationally in place (Jones and Cullis, 2003). The ability of a local authority to provide outsourced services with satisfactory levels of quality is correlated both with the performance of the local authority or with those of the group. Overall, the latter must be able to generate adequate cash flows to maintain or better to the development of services provided to citizens. It is then seen an extension of the concept of overall performance of the local authority including as a result of the phenomenon of outsourcing of local public services registered at the European level, the services provided by third parties belonging to the

group (Behm, 2003). The overall performance should be evaluated using information sufficient to express an opinion on the financial sustainability, production processes and to the total energy used to achieve the public purpose and the resulting satisfaction of the needs related to them (Grossi and Mussari, 2008). The technical instrument that can be used for accounting for the overall performance of the local authority is the consolidated financial statements which provides a framework of the economic and financial position of the group, improving, at the same time, the internal and external accountability. In many cases, the consolidated group reality of considerable dimensions also whose overall performance would not otherwise be cultured 4. However, such an instrument on a European level is characterized by a poor diffusion accompanied by a marked heterogeneity formal and substantial. If we consider jointly literature and Italian legislation, it is possible to identify areas of information that should be necessarily indicated for proper accountability. With a view to evaluating the financial viability of the local authority, the consolidated financial statements must in fact contain information on governance and on the elements critical accounting for the assessment (Bastida and Benito, 2006; Hespenheide *et al.*, 2010; Lopez *et al.*, 2006). As for the aspects of governance, the contingency approach states That governance structure and its effectiveness would be contingent on internal and external factors. Hence, what works in one setting or at one point in time may not work in another. For example, we know that undoubtedly the changing context of public service delivery has had important important consequences for public and non-profit organizations. However, we still do not have a full understanding of what impact contextual factors would have on the different parts of the governance system. The behavioral approach is based on the view that governance is an open system with various influence and power relations among internal and external actors. This perspective emphasizes the importance of studying behavior, decision-making processes and relationships among the various actors involved in the governance system.

The evolutionary approach assumes that governance is an open system subject to change over time. Hence, governance structures and practices change over time and various learning processes take place at various levels: societal and institutional organizational, group and individual level. We believe that there is a need for longitudinal and comparative research designs that not only focus on board characteristics and behavior but explicitly examine how governance structures and practices change over time. A different intensity of control mechanisms, corresponding to a different strength

to concretely address the results of action of external parties towards the achievement of public policy goals. Consequently, it is observed that the hypothetical causal relationship contracts-production services-achievement of outcome is observing the experience, its weakest point just last ring.

In relation to the changing socio-economic context in which the territorial administration is included so you can identify four basic roles: the entity theory considers the consolidated as the budget containing the results sheet and income statement, total group. According to this theory, the parent company is one of the units of the group. The proprietary theory currency as cornerstone the parent company that is considered in its role as owner of the investments in other investee companies. The parent company is considered a conceptual model theory intermediate between the theory and the extent of the property. Focuses on the group as a unit designed to meet the interests of the parent but taking into account the interests of minorities. The modified parent company theory is a variation of the previous theory: there are differences in relation to the accounting treatment of minorities.

In the private sector, doctrine and practices identified with sufficient clarity the criteria for determining the scope of consolidation: The most common criterion is the ownership of capital while in the public sector as observed by the best doctrine the solution is very problematic because you can not refer to the concept of ownership of capital. In fact, not all public companies have a share capital and not always the fact that the public authority should fund the company involves the control of management.

RESULTS AND DISCUSSION

Some data classification: The non-profit subsidiaries under the sector of:

- Culture
- Environment
- Job
- Free time
- Other

The non-profit companies examined by legal (Fig. 1):

- Legal form
- Association
- Foundation
- Social cooperative
- Other

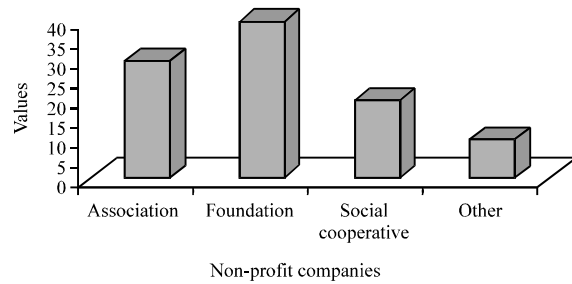


Fig. 1: The non-profit companies examined by legal

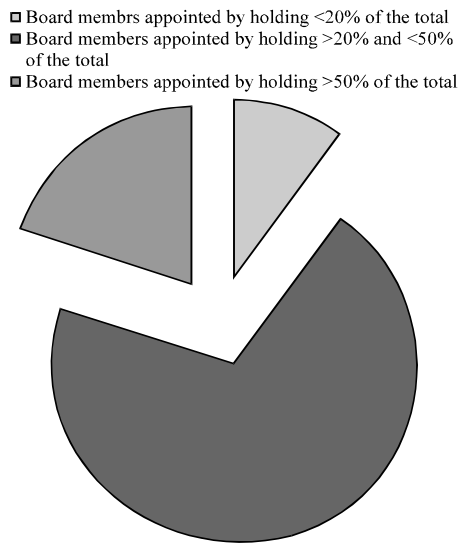


Fig. 2: Influence on governance

Influence on governance (Fig. 2):

- Board members appointed by holding <20% of the total
- Board members appointed by holding >20% and <50% of the total
- Board members appointed by holding > 50% of the total

Participation by holding (Fig. 3):

- Endowment fund
- Annual contribution
- Other (e.g., use properties)

The peculiar aspect in the consolidation of non-profit companies is that the “participation” of the municipality is not “investment securities” and has no exchange value or liquidation. It is believed, however that such participation should be expressed as assets to

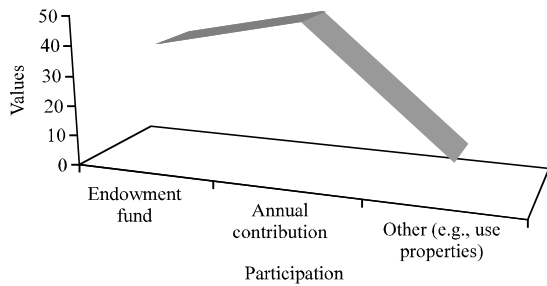


Fig. 3: Participation by holding

represent the value of the “power of government” of the city in the company non-profit. In equity should be however, place a constraint of non-availability as is already done for the state property, equal to the same amount of the goodwill. In the first analysis, consider the public administration group which includes companies and organizations instrumental, subsidiaries and associates by a public authority as defined by the accounting principle applied to the consolidated financial statements. The analysis starts from identifying the non-profit companies subsidiaries that must be part of the group public administration. The analysis is based on three main elements:

- The definition of “instrumental bodies controlled” provided by local gaap
- The contribution in terms of ordinary contributions and capital goods
- The presence of rules that establish the participation in the holding

Regarding the first point, we note that they are considered “instrumental bodies controlled” parent of the public and as such should be included in the consolidation, the bodies in which the city of Turin:

- Has the possession, direct or indirect of the majority of the voting power in the entity or in company
- Has the power granted by law, statute or agreement to appoint or remove a majority of the members of the governing bodies, the power to define the strategic choices and policies for the sector as well as to decide in order to the address, the planning and programming the activity of an organization or company
- Exercise, directly or indirectly the majority of votes at meetings of the governing bodies, the power to define the strategic decisions and policies of the sector as well as to decide in order to the address, the planning and programming of the activity institution or company

- Has the obligation to settle the deficits in cases permitted by law for a higher percentage share of the acquiree
- Exercises a dominant influence by virtue of agreements or statutory provisions in cases where the law allows such contracts or clauses. The public service contracts and concession agreements with organizations or companies that mainly perform the activities covered by such agreements require the exercise of dominant influence

From the above concepts, the following parameters were extrapolated, applicable to reality considered:

- Majority of votes in the members/board of founders
- Majority of appointments to the board of directors/management committee
- Presence of contracts or agreements that have strong interest in the assets of the city of Turin

Regarding the second point, it was considered appropriate to analyze the participation of the city of Turin in profit firms not even from a point of view and balance sheet. In particular, have been taken into account the following parameters:

- Ordinary contributions
- Capital contributions
- Other forms of contribution

It is therefore, identified as an indicator of such quantities as to ensure the right level of objectivity and the necessary “fairness” to the methodology followed the relationship between the ordinary contribution pledged by the parent company and the total contributions recorded in the income statement of each entity. In the analysis were also included companies in which contributions capital (imobili or other assets) or other forms of contribution are particularly relevant and strategic for the activities of the organization. Regarding the third point, it was decided to analyze the presence of national or regional read involving the participation of the city of Turin in certain non-profit companies. It should be noted that for the purposes of this analysis, it was decided a priori to exclude the possible parameters between intellectual capital and intangibles as enhance the set of intangible resources available to any non-profit entity, relevant to its competitive ability is a process in itself complex and difficult to translate into financial terms, for both institutions themselves which for municipal services (external to the reality of entities). The non-profit companies in the sample were subjected to analysis of:

- The role, the behavior and the effectiveness of the board of directors
- The relationships between board, management and other internal and external stakeholders
- Accountability, transparency and integrity of governance
- Assessing and measuring organizational performance
- New forms of governance arrangements in service provision

The first significant fact that emerges is that the non-profit 57.6 investee feel employees holding for funding but does not think of having to take into account in terms of accountability and the logic of the group. Conversely, non-profit organizations have a strong bond of result, in terms of need satisfaction with citizenship. The 85% of non-profit champion adopts monitoring systems to customer satisfaction and declared to exist by the will of the citizens. The logic is if the citizen likes, then the common claims. Where participation is given by the granting of tangibles assets, the non-profit companies declare that they have no link whatsoever with holding if not properly administer the assets. The constraint is instead strongly perceptocon users, citizens who become advocates. Shows that 60% of companies do not profit of the sample is not affected holding in the strategic choices of the board; however, the area most affected is the holding company is the cultural sector (best represented by foundations theater and museum). The boards are not always chosen with logic of professionalism in the field and therefore, come into conflict with management which aims instead to achieve the mission. The introduction of the consolidated financial statements as a burden which involves: accountability systems different than those imposed by law for non-profit, then move from the logic of revenue and expenditure for missions, the logic of economic and financial. In addition, charts of accounts requires common commitments addresses valuation of financial statement data from the holding.

No company in the sample is planning changes in the governance system, the functional logic of the group. The weight of the control is weak and not justified by legal aspects of property. The property is not perceived, it is highly perceived the relationship with the citizens which is the *raison d'être* of the non-profit subsidiaries. The group is therefore, felt as taxation legislation and the consolidated financial statements comply as unnecessary and misleading with respect to the logic of citizen satisfaction because an additional burden in need of resources.

CONCLUSION

The non-profit companies have little sense of belonging to the local public groups: the dependence on public funding is tied to the ability of public companies. Poor reflexes on gove and feel strongly bound to the citizens. It emerges that the non-profit investee feel employees holding for funding but does not think of having to take into account in terms of accountability and the logic of the group. Conversely, non-profit organizations have a strong bond of result, in terms of need satisfaction with citizenship. The non-profit champion adopts monitoring systems to customer satisfaction and declared to exist by the will of the citizens. The logic is if the citizen likes, then the common claims. Where participation is given by the granting of tangibles assets, the non-profit companies declare that they have no link whatsoever with holding if not properly administer the assets. The constraint is instead strongly perceived users, citizens who become advocates. Shows that 60% of companies do not profit of the sample is not affected holding in the strategic choices of the board; however, the area most affected is the holding company is the cultural sector (best represented by foundations theater and museum). The boards are not always chosen with logic of professionalism in the field and therefore, come into conflict with management which aims instead to achieve the mission. The introduction of the consolidated financial statements as a burden which involves: accountability systems different than those imposed by law for non-profit, then move from the logic of revenue and expenditure for missions, the logic of economic and financial. In addition, charts of accounts requires common commitments addresses valuation of financial statement data from the holding. The local public groups in particular, the holding company, must take account of these critical issues to guide the inspection and on the strategic aspects shared at group level and thus encouraging interaction with a view to greater effectiveness and efficiency of public services offered. This benefit internal optimization of resources and external benefit in citizen satisfaction. It emerges the concept of unity of purpose that overtake the formal and legal and identifies a unity of purpose with the distribution of economic benefits for all stakaholders.

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