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INFORMATION ASYMMETRY, CAPACITY OF PRODUCING PUBLIC VALUE AND EFFECTIVENESS OF PUBLIC INSTITUTIONS. IMPACT OF INNOVATIVE AND INTEGRATED MANAGERIAL TOOLS •

Abstract

The aim of this paper is to give an example of how a public Institution can be more effective increasing its capacity to produce public value and reducing information asymmetry. Introducing the concept of network, it increases the complexity of interactions among all the actors concerned, especially in two kinds of problems: the rise of *information asymmetry* and *agency costs*.

While agency costs problem is keep down in a multi stakeholder environment, information asymmetry becomes more critical. The case history describes how an Italian Institution achieved an higher effectiveness using an integrated approach of Balanced Scorecard and Social Reporting.

Introduction

Effectiveness of a Public Institution can be defined as the measure of capacity to achieve its objectives. These targets are linked to citizens satisfaction (with financial balancing as a constrain).

A public Institution can be effective if (i) knows its customers' needs and (ii) it's able to maximize delivered public value.

Thus, we assume as theoretical proposition a positive relationship between capacity of producing public value and information symmetry (independent variables) and effectiveness of public Institutions (dependent variable). Case study provides an example of how a public Institution can better manage these two variables using innovative and integrated managerial tools.

Capacity to produce Public Value

Talking about Public Value is referred to the value created by government trough services, laws regulation and other actions (Kelly, Mulgan, Muers, 2003). What constitutes public value is the

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continuous elaboration made by policy deliberation, delivered in the public sector. In other words public value can be produced by government organizations, private firms, nonprofit or voluntary organizations, service users or various entities (Alford, Hughes 2008). This is true because, what produces and improves public value is not who produces it but who wastes it.

Moore (2005) said that public value is a kind of value consumed collectively by citizens rather than individually by clients. This idea is the last version of a long and interesting debate started with O'Flynn (2005) who talks about public value as a multi-dimensional construct created not just through outcomes but also through processes which may generate trust or fairness.

On the other hand Kelly in the 2004 defined public value as the value created by government through services, law regulation and other action and it is fundamental to construct a structure to administrate and evaluate the best combination of resource allocation, decision making and appropriate systems of delivery determined. The concept has been refined by Stoker (2006): public value is more than a summation of individual preferences of the users or producers of public services - whether considering those preferences and services as a sum of single one or a synthesis of collective choices – it is collectively built through deliberation involving elected and appointed government officials and key stakeholders.

The point has given by Moore (2005) with the intention by public managers to centralize their activity to produce public value, like private value is the core activity of private sector managers' action. It is important to not consider public value simply as an alternative to the traditional approach to the provision of public services in which the public are seen as consumers who express their individual preferences through their actions and purchases.

The collective dimension introduced by Moore (1999) depends on political processes of decisions. Because when we talk about public value we consider not only those resources, as capital and labour, that can be used in different ways and with different scopes, but we consider also what are called "unique resources" that need political participation to decide the best allocation instead of the best interests. Moore (1999) said that the most appropriate criterion for decision making is public value; in this sentence is implicit the idea that there is a distinction between individual and collective choices, but the final result is given by a synthesis of all of them.

The definition of public value can be interpreted ambiguously if it is not clear the dimension and the context of its applications. The first level of dimension is the distinction between single and collective choices, where those two concepts are not antagonist – like the administrative law codification where there is a distinction between private interests and public interests, and where the second one has got priority– but are complementary, because the nature of public environment it is fundamental to consider all the typologies of actors involved in the process and all the kind of actions that they can make.

The second level of dimension is linked to who avails and produces benefits through actions and services. Chapman (2005) talks about a multidimensional system where citizens and consumers have a significant role as co-producers. Chapman introduces this idea using the healthcare example

“citizens and consumers are not simply passive recipients of health services, but are actively engaged in determining their own health through a myriad of significant decisions: what to eat and drink, and whether to exercise, or smoke. In general most of the public services outcomes depend as much on the actions of citizens as on the activities of the services providers”.

The public value perspective gives to individuals involved in this process different dimensions:

- consumers of the services provided
- citizens requiring that their taxes are spent appropriately
- citizens with an interest in issues of fairness
- co-producers of the outcomes associated with the services provided

each of these roles give a different contribute, in terms of quality and quantity of the contribute, to the definition of public value.

In a democracy, the general value is ultimately defined by the public themselves.

According to Chapman, value is determined by citizens' preferences that interact with their actions and with the decisions of elected politicians.

There is also a part of value added by the government that is given by the difference between these benefits and the resources and powers which citizens decide to give to their government. Something valuable is not only what is desirable for citizens; we must consider also the return on what is desirable given by the citizens actions: we can call it an ***algebra process of actions and their interaction in the set of public value*** – where the algebraic idea is considering negative and positive effects sum together.

The public value is a paradigm where everything is based on relationships between persons and members, through those relationships are defined the multiple goals given by the response to citizen/user preferences (O'Flynn 2007). The multiple setting of decision is managed with a pragmatic mode of selection where the decision making process, with a more bottom-up approach, is characterized by a model where participants, in a system with uncertainty and complexity, are part of it, inside a networked governance model (Stoker 2006). The networked governance model is based on the Kettl's (2002) idea about how public managers have to work: a complex environment with resources divided in a range of sources has to be managed with an open mind and open to learn model, where interpersonal and inter-organizational processes are the base of their action. The core objective is to produce value; public value is not only the sum of individual preferences between users and producers of public services, it is collectively built through deliberation involving both managers, public delegates and stakeholders.

In other words, because different resources produce different actions, we can expect different level of public value given by different plans of action in the determination of public services. The networked governance is fundamental to understand how different truth can be managed.

Introducing the concept of network, it increases the complexity of interactions among all the actors concerned in the decision making process, especially in two kinds of problems: the rise of *information asymmetry* and *agency costs*.

Information asymmetry

Galbraith defined the difference between useful information and information owned by organization as “informative complexity” (Galbraith J., 1973). He argues that a high asymmetry requires complex organizational solutions in order to improve integration. In Galbraith’s analysis this asymmetry depends on the number of production resources, their heterogeneity, their interdependence and their variability. When asymmetry is higher, integration can be obtained designing a coordination by objective, when it’s medium we can use hierarchy and when it’s low standardization could be the better solution.

He proposed two strategies: (i) reducing complexity and (ii) improving elaborative power. The integrated approach described in the case study seems to be a good way to implement this strategic priorities, because it goes to implement different actors in the first part of the decision making process: during the phase of which are the argument that can be managed in the creation of public interests, services and consequently in the creation of public value. In the classical economic approach (Stiglitz, 2007), information symmetry has to be researched to avert the market failures, through process of information acquisition to increase level of thrust.

Thrust is an important concept introduced by Kelly Mulgan and Muers, that is critical to public value creation: “even if formal service and outcome targets are met, a failure of trust will effectively destroy public value” (Kelly, Mulgan and Muers, 2002).

According to the existence of great level of information asymmetry that can spoil the general level of thrust and damage the creation of public value, one way to prevent this kind of phenomenon is to ensure that the creation of public value is central to the mission of all the organizations included in the process, through a shared management of inputs and outputs, with the creation of a general culture to realize intended outcomes and involving stakeholders in determine public services priorities and in contributing to service design and delivery (Partson, Goodman, 2008).

This is one of the core assumptions of the case-study, where the integration of balanced score card and social reporting is to develop a common type of interactions among all the stakeholders involved.

Agency Costs

Starting from a classical economics view of the firm (see Coase, 1937 and Alchian and Demsez 1972), contractual relations are the base and the essence of the firm not only with employees but with suppliers, customers, creditors, etc.

In this basic idea of a firm is underlined the concept of networked governance retrieved by Stoker in 2006 and applied to the public value. The two concepts can be compared because both consider a multi-dimension system of relations between the parts: in the first case “the firm is not an individual. It is a legal fiction which serves as a focus for a framework of contractual relations” (Jensen and Meckling, 1976); in the case of creating public value, through the distribution of services, laws regulation and other actions is given by a multi-dimensional construct (O’Flynn , 2007). In both cases “the equilibrium is given within a framework of contractual relations” (Jensen and Meckling 1976). This particular comparison is important to introduce a new kind of problem in the creation of public value: the Agency costs.

Focusing the attention on the interactions of groups and not individuals, it is due to consider the Agency Theory and hits problems of goals conflict between principal and agent and the difficulty of monitoring the activity of the agent by the principal (Arrow, 1971, Wilson, 1968). Here it can be introduce the distinction that we give to the application of agency theory in the private and public sector. In the private sector the Agency Theory is characterized by some assumptions: because the theory concerns human individuals with a bounded rationality, the level of goals interests is a self interest conflict between individuals; because there are different self interests the problem is to find better relationships in which the parts have different goals and risk preferences that have to be aligned. In the public sector, because there is not a conflict between individuals but there are individuals assembled in groups of stakeholders, there are different levels of bounded rationality, given by the sum and the interaction between single individuals that can produce a synthesis of information and interests. In this case the relationships between stakeholders are focused in finding the best goals and risk preferences. This is possible by an active plan where all the parts are involved in the creation and identification of interests and goals. The agency costs related to the goal conflict of the parts are reduced because the greater is the number of stakeholders involved, greater is the warrantee of goals desires involved in the process of decision making. In other words, the interaction between different stakeholders with goals, origins and individuals represented can give great results in terms of public value creation. Next studies will analyze how much the public value increase with different numbers of stakeholders involved in the management process of decision making and policy identification.

In case of high interaction among stakeholders, agency costs are reduced by balancing among all different interests of actors involved in environment.

On the contrary, this high interaction increases information asymmetry because there is a real problem in selecting the most useful information.

How is it possible to keep down the selecting problem? The case history described in the following section gives a concrete example to make it possible, matching Balanced Scorecard and Social Reporting.



Managerial tools and their effects on Information asymmetry and Capacity to produce Public Value

Balanced Scorecard

In management control, the *balanced scorecard approach* (Kaplan, Norton, 1996) adds 3 new perspectives to the financial one: customer, innovation and learning, and internal business.

The balanced scorecard is not only a measurement system: it enables organizations to clarify their strategy and translate them into action. It provides feedback about internal business processes and also about external outcomes.

Robert Kaplan and David Norton developed Balanced Scorecard in the early 1990's. They answered the question: "what should companies measure in order to 'balance' the financial perspective?".

They started from the need of new managerial tools to go over some weaknesses of previous management approaches.

This approach looks at managers' behaviour as a continuous improvement of strategic performance. The balanced scorecard transforms strategic planning into the decisional tool of a company.

In Public Institutions we could achieve two results using a balanced scorecard approach:

1. to integrate quality of life aspects in the management control system of Administrations;
2. to encourage use of an innovative approach to management control.

Kaplan and Norton describe the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."

The balanced scorecard suggests to analyse four perspectives:

1. The Business Process Perspective
2. The Customer Perspective
3. The Financial Perspective
4. The Learning and Growth Perspective

The Business Process Perspective refers to all internal business processes. We need a metrics based on this perspective that allows the managers to know how well their business is running and how its products and services conform to customer requirements.

Who knows these processes must design these metrics carefully. This kind of information is not something that can be developed by consultants: a special effort of personnel is required.

While mission-oriented processes give many unique problems, the support processes are easier to measure and benchmark using generic metrics.

The second Perspective is the customers' one. According to recent management studies, customer focus and satisfaction has an increased importance in any business. A customer not satisfied will eventually find a competitor of the company that will meet their needs. Low performance from this perspective is an indicator of bad future results, even though the current financial indicators may look good.

The Financial Perspective are strategic in the vision of Kaplan and Norton. Managers will do whatever necessary to provide it. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on finance leads to the "unbalanced" situation with regard to other perspectives.

The Learning and Growth Perspective considers that in a knowledge-worker organization, people are the main resource. In these years of rapid technological change, it is necessary for knowledge workers to have a continuous learning activity.

Kaplan and Norton consider 'learning' more than 'training'. Learning includes things like tutors within the organization, web based instrument and tools to translate tacit knowledge in explicit knowledge. Metrics should guide managers in focusing training funds where people need them. In any case, learning and growth are bases for success of any knowledge-worker organization.

Later, scorecard was seen by the authors as a tool that comes from a "strategy map" (Kaplan, 2005). Recently, balanced scorecard approach evolved in Strategy Focus Oriented (SFO) with important emphasis on the concept of "strategic alignment" (Kaplan, 2007).

The process of engaging people becomes the main effort in building process of an organization focused on their strategies.

This alignment among citizens' needs, strategies and behavior is a way to reduce information asymmetry.

In 2003 Moore proposed a different scorecard that, he argues, can complete a Balanced Scorecard approach because:

1. it takes into account not only "customers" but also other stakeholder;
2. it allow to manage relationships among Public Institutions.

An integrated approach between Balanced Scorecard and Social Reporting allows to remove the two weak points coming from Moore's analysis.

Social Reporting

Social Reporting provides a measure of Public Value Added and its distribution among stakeholders. On the other hand, balanced Scorecard provides several cause-effect relationships among strategic objectives organized in four perspectives (economic, external stakeholder, internal processes, learning and growth).

A public agency should be an excellent service provider and discharge its social responsibilities with external stakeholders. We suggest to modify the current set of indicators (see table 1) adding a set of *social indicators* and to differentiate between different groups of local stakeholders.

There are two aspects that Administrations have to consider in order to satisfy citizens:

1. Citizens can be grouped in class of stakeholder with different priority to satisfy;
2. A lot of these classes have “social” priorities (environment, ...).

The word *stakeholder* was born in analogy to stockholder by Standford Research Institute in 1963 to indicate who has an interest in company activities.

Classic definition is Freeman’s one (Freeman, 1984): “stakeholders are individuals or well-defined groups from whom the company depends on to survive ... that can influence or be influenced from company activity in terms of products, policy and process.”

In the last decade, some Italian Municipalities have been using “Social Reporting” in order to monitoring social priorities of stakeholder.

A recent “Guide lines” about Social Reporting in Italian Municipalities has been published by the “Ministero degli Interni”. This document could lead the diffusion of Public Value measurement in Italy.

Some Municipalities (we analyse reports from Comune di Copparo and XI Municipio di Roma) use “*The Social Reporting*” methodology to describe the achievement of each year (Zadek, 1997) even if they can’t integrate it with financial reporting.

For example, the Social Reporting of Comune di Copparo identifies ten dimensions:

1. Main indicators (including average cost of elements of “individual economy”, e.g. cost of house);
2. Urban environment ;
3. Cultural events;
4. Employment;
5. Industrial activities;
6. Municipality efficiency;
7. Individual demand services;
8. Employee of Municipality;
9. Social services;
10. Citizens associations.

This example of social reporting is interesting because it gives an action plan for each point: they consider social reporting as a managerial tool.

In general, *The Social Reporting* identifies stakeholders classes and describes what a company did during a year for them and how many resources have been used to do it. According to a recent proposal, stakeholders’ classes could be (for a company) the following: equity owners, employees, costumers, environment, local community, suppliers, and public agencies (Chiesi 2000). The social

reporting is increasing its success in all kinds of organizations. There are several reasons for this success.

Zadek in 1997 found three reasons:

1. Society want to know not only the effects of companies activity but also their strategies to evaluate if there are some negative social effect;
2. the “value shift” connected to globalisation that considers both economic aspects and strategies sustainability aspects;
3. stakeholder management - due to points 1 and 2 – that forces managers to understand the expectations of stakeholder.

Some standards of social reporting have been defined. Each of them analyses relation with some stakeholder class (Human Development Enterprise Index, Social Accountability 8000, Domini 400 Social Index, Dow Jones Sustainability Group Index).

Recently some efforts to integrate all relations with stakeholders have been made: method AA1000. In 1999, de Colle (Hopkins, de Colle, 1999) analysed which indicators can describe the dimensions of AA1000 method. Even if these studies consider companies, they could also be suitable to describe the activities of Administrations.

In the following table it is possible to find the dimensions (class of stakeholder and social responsibility) of AA1000 methodology:

Stakeholder	Social responsibility
Stockholder / Equity owners	Transparency
	Accountability
	Corporate governance
Employees	Health and safety
	Trade Unions relation
	Training
	Salary
	New jobs
	Carriers policy
	Human right respect
	Stock option
	Equal opportunities
	Fight against children work
Customers	Product quality and safety
	Information to customers
Environment	Environmental sustainability of production process
Local community	Free funding
	Social programs
Suppliers	Suppliers relationship
Government	Cooperation

Table 1 - Class of stakeholder and social responsibility in AA1000 methodology

The need of building a wider reporting and the conditions to make non financial aspects accountable has a general agreement.

Recently, Carnegie and West have examined the context of the Australian and New Zealand public sectors, where regulatory changes took place, in order to explain how is possible to make accounting itself more accountable within the public sector using non-money quantifications or qualitative forms of information where such values are unavailable (Carnegie and West, 2005).

Combining theoretical approach with tools' characteristics, we found an explanation of the effects of integrated managerial tools on positive relationship existing between (i) delivered Public Value and (ii) Information symmetry (between citizens and organization) on effectiveness of public organizations.

Case Study

Selecting criteria of the Case

In order to provide empirical evidence of concrete feasibility, we describe the case of a Chamber of Commerce (Chamber of Commerce) of a local area in the south of Italy.

This kind of Institution exists in each Italian "Provincia" and it has two missions: market's regulation and local marketing. All companies must pay each year a fee based on sales. We chose this kind of Institution because their Governance has a form very close to a stakeholder management. The Executive Board (called "Giunta") is composed by managers elected within Industry and Consumer Associations. This Chamber of Commerce realized his Social Reporting since 2006 but only in the 2007 has used an integrated approach with balanced scorecard.

Research methodology

According to Yin's approach we prepared a case study protocol containing a detailed planning of research activities and tools.

We use the "Direct Observation" option in order to better understand change in process of elaboration of Social Reporting. We spend several days participating to managerial meetings, open days with stakeholders and relationships with Board of Directors ("Giunta").

From a methodological point of view, the choice of a Chamber of Commerce as the research subject of this paper is based on the idea that the first move in situating a research problem is deciding what persons or stakeholder groups will be served by the research, and to describe reality from the perspectives of those persons or stakeholders (Van de Ven, 2007). Because the Chamber of Commerce is the nexus of different stakeholders and different actors with many interest – in some cases with big conflicts – it is interesting to analyze and it will be a good case trying to understand those complex mechanisms.

Another important aspect that help us to choose the Chamber of Commerce is because with this institution we can study the perspective and interests of different actors in the same time, trying to

reduce the gap of partial representation that we can notice in a single observation. According to Van de Ven (2007), because different people interpret situations in different ways, we look to the interaction and socialization process that in the case of Chamber of Commerce is collective and simultaneous.

The level of the analysis is a double level case: the most important level is a group level, where in the Chamber of Commerce is given by different stakeholders that play and act by the Giunta, trying to confront and resolve their interests; on the other hand we have an inside single organization level, trying to understand and encode how interests are construct inside the single organization. Our case-study is focused on the first level of analysis, the group level, looking to the interactions between them and their frame to reduce information asymmetry.

Innovations in Managerial Tools characteristics

Chamber of Commerce published its first social reporting in 2006 as a communication tools. It is possible to verify it analyzing the following items:

- no stakeholder commitment was implemented;
- the content of document was organized following a Department criteria;
- it was only an ex-post reporting without planning phase;
- it was difficult understand how much was paid for each stakeholder' category;
- there was no links with strategic documents.

In 2007 Chamber of Commerce used an integrated approach that forced them to:

- to organize stakeholder interview and meetings;
- to organize the content of document following a stakeholder criteria;
- to negotiate target value for each initiative;
- elaborate a matrix with two dimension (strategic objectives and stakeholders) including a qualitative indication of relevance for each category;
- to create a direct links with strategic documents.

Case study analyzes these innovations in social reporting process in order to explain how they really help Administrations to improve the two main leverage to get effectiveness:

- Capacity to reduce Information asymmetry;
- Capacity to improve delivered public value.

The following table shows the impact of each process innovation on Administration capacities.

Process Innovations	How an integrated approach can help Administration to improve:	
	Capacity to reduce Information asymmetry	Capacity to improve delivered public value
Stakeholder commitment in social reporting process	<i>Strategic priorities are discussed with stakeholders.</i>	<i>Meeting with stakeholder can help to improve perception of Public Value produced.</i>
Organization criteria about content of social reporting	<i>From a report about what each department did to a report about what each stakeholder class can receive from the Institution.</i>	-
Social Reporting as an ex-post or planning document	<i>Negotiation is possible only in planning phase.</i>	-
Link between programs and stakeholder	<i>Negotiate how much public value produce benefits to each stakeholder class.</i>	<i>Negotiate how much public value will be produced .</i>
Link with strategic process	<i>How much Public Value is produced and how it is shared among stakeholder <u>is</u> the Administration strategy.</i>	-

Table 2 - Impact of each process innovation on Administration capacities

In order to achieve Stakeholder commitment in social reporting process the General Secretary of Institution organized an open days with key people that represents the most important category of users of Chamber's services.

These meeting took place before final editing of document to demonstrate that integrations and advices coming from stakeholder could modify the content of Document and Institution's priorities. In this way Social Reporting becomes a negotiated planning document.

In the first meeting, the lady who has responsibility of operations was very worried about asking to stakeholders advices before the final editing of Social Reporting. Anyway a strong sponsorship went from General Secretary (maybe because he was in that position since few weeks). So, it became possible to create a link between social reporting and strategic process.

Some difficulties occurred in changing organization criteria about content of social reporting: each department was interested to give evidence of their own contribution to Chamber results. Anyway, when people understood that each stakeholder needs specific information, they agreed with a "customer oriented" document's organization.

We find very smart and significant that the link between programs and stakeholder in public value distribution among stakeholder is not a zero-sum game. In the following table You can note that adding percents of public value received from each stakeholder the sum is higher than 100%. Anyway it makes sense: the same result could be a value for two or more stakeholder categories.

OBIETTIVI STRATEGICI	TOTALE IMPORTI	Importanza per gli stakeholder					
		Imprese	Professionisti e Collegi	Consumatori	Sistema camerale	Altre istituzioni	Dipendenti
Sostenere la competitività delle imprese	2.232.087	●		◐			
Semplificare gli adempimenti	1.390.626	◐	●				
Garantire mercati corretti	621.374	●		●			
Attuare le politiche del sistema camerale	649.355				●		
Fare rete con altre istituzioni	100.800					●	
Adeguare l'organizzazione del lavoro, dei servizi e la promozione dell'immagine dell'Ente, incrementare le competenze del personale	1.343.600	◐					●
Garantire l'equilibrio finanziario dell'Ente e la corretta gestione	1.691.130	●			●		●
Totale valore aggiunto distribuito	8.028.973	78%	17%	29%	29%	1%	38%

Table 3

During the public meeting where social reporting was presented to local Authorities and to the press, General Secretary said: "I believe that our way of managing this Institution now is different from the past". Could be interesting verify what will happen in the next years.

Conclusions

The qualitative research based on a case-study give us an excellent idea to understand how to research information in a way of reducing information asymmetry, using the balanced scorecard and the social reporting; the approach used in the Italian Chamber of Commerce is a good way to elaborate and codify those mechanisms. It is important because the Chamber of Commerce is an established fact that embrace different actors, private and public, and it is a good example to understand how this different realities act and trade their own interests.

The limits of this paper is given by the lack in the quantitative analysis of the information asymmetry reduction. Next studies will focus on the research of which elements effectively reduce information asymmetry, trying to prepare a model where it is possible to quantify and produce a scale of this reduction. The same problem is related to the agency costs and the quantification of those costs in a model with more than two actors with different origins and scope like in the Chamber of Commerce.

Finally, the aim of this paper is to provide relevant contributions for two different type of audiences. First scholars interested in the development of a new methodology, based on the integration of different approaches, important in the evaluation of public management. On the other hand, this research can be helpful for all the practitioners that daily compare and apply those methodologies, looking for a sustainable way to manage PA.

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