

## GOVERNANCE AND CONTROL OF EXTERNALIZED WATER SERVICE MANAGEMENT: COMPARING SOLUTIONS ADOPTED IN ITALY AND SWEDEN

*Daniela Argento\**, *Giuseppe Grossi\*\**, *Anna Thomasson\*\*\**

### Abstract

In this paper the challenges imposed on corporate governance of water services in Italy and Sweden are analyzed and compared. From the comparative analysis we notice that with externalization of services more stakeholders become involved in the provision of the services. These stakeholders have common as well as divergent interests and the challenges thus become to find an alignment of interest among stakeholders in order to secure a sustainable provision of the services. The comparative analysis indicates that such alignment is especially difficult when stakeholders have heterogeneous background (public and private sector).

**Keywords:** Externalization Of Public Services, Corporate Governance, Public Sector Management, Water Services, Stakeholders.

\**Kristianstad University, Sweden*

*E-mail: daniela.argento@hkr.se*

\*\**Kristianstad University, Sweden*

*E-mail: giuseppe.grossi@hkr.se*

\*\*\* *School of Economics and Management, Lund University, P.O. Box 7080, SE-220 07 Lund, Sweden. E-mail: anna.thomasson@fek.lu.se*

### Introduction

Change processes in European countries have prompted many local governments to externalize the production of local public services. Externalization includes: corporatization (the transformation of local government units into autonomous corporations with their own legal status), creation of diverse forms of public-public collaboration (inter-municipal arrangements of joint service delivery), establishment of public-private partnerships (PPPs), contracting out (delegation to private or non-profit organizations) and privatization (total transfer of certain functions and services to private companies) (Reichard, 2006).

The importance assumed by externalization, versus direct management of local public services, changed the roles and tasks of local governments (Boston, et al., 1996; Denters and Rose, 2005). Local governments gradually abandoning the role of producer, have taken on the role of controller and guarantor of the provision of local public services, establishing a network of relationships and interdependencies with other stakeholders (public service providers, regulators, governmental bodies, customer associations, etc.) whose interests may not always be convergent.

This paper will contribute to the aforementioned theme by comparing corporate governance models of water service management in Italy and Sweden. A comparison between these two countries is useful since both are facing similar challenges in terms of local public services' efficiency and quality improvement, and it is interesting to analyze what kind of solutions were adopted. To focus on water services is equally interesting

because of the growing importance received by management of drinking water provision, waste-water collection (sewage) and waste-water treatment over the last decades. The aim of the paper is to explore corporate governance models adopted in the two selected cases in order to understand how the relations among various stakeholders work and to identify if the solutions used in Italy and Sweden are different and why. The Italian case will focus on the Lazio region and the Swedish case on the Stockholm region, and the final goal of the paper is that of drawing comparative conclusions on the "pros and cons" of Lazio and Stockholm organizational models of water service management.

Empirical data were collected through a document analysis (policy notes, laws, regulations, articles in professional journals, corporate statutes, etc.) and the carrying out of face-to-face semi-structured interviews with important stakeholders of the Italian and Swedish water sectors. Apart from these interviews, relevant websites were also consulted to support the evidence provided by the interviews. The result of the study rests upon a multiple case study design or what also is called a comparative case study approach (Yin, 2003; Eisenhardt, 1989). The choice of a case study corresponds with the explorative and comparative nature of the purpose of the paper since it enables the study of the complexity of the phenomenon as well as the context (Eisenhardt, 1989; Yin, 2003).

The remainder of the paper is structured as follows. The second section presents the research project's theoretical framework. The third section focuses on the Italian and Swedish institutional settings. Section four provides a description of the two case studies and is

followed by a comparative analysis of the research results (section 5). The paper ends up with some concluding remarks (section 6).

## Theoretical framework

When local governments choose to externalize public services, the production process changes into a network structure where different types of stakeholders are tied together (Grossi and Mussari, 2008). In the last two decades, there has been a diffusion of contracts by which public and private stakeholders agree to work together and to define common objectives in order to confront collective problems (Erridge, 2003).

Nevertheless, the contract regulations are not exempt from criticism. External organizations that provide public services can be tied to a local government only by a contractual relationship or by both a contractual relationship and a financial control relationship (Grossi and Mussari, 2008). In the first case, the external organization (regulatee) enjoys a good level of freedom from local government (regulator), but there is a risk of information asymmetry between the parties. The regulated organization could provide misleading information and consequently affect the regulator's regulatory activities (Cooper, 1998). Then, the regulator must obtain more information to exercise effective control over the regulatee and the costs of regulation have to be assessed and taken into account (Erridge, 2003). Instead, in the second case, local government is not bound only by contractual relationships, but also by ownership. That is, local government is the (total or partial) owner of the corporation and – by exerting internal control – the risks of being captured are reduced. Nevertheless, the problem of conflict of interest arises for a local government in its dual role as regulator and regulatee, requiring the need to define suitable governance rules (Riccaboni, 2003).

Given these trends, every local government establishes both vertical and horizontal relations with other governmental bodies, public service organizations, regulatory authorities, customer associations, etc. The presence of networks of stakeholders operating at different levels – who interact, collaborate and compete in order to resolve common problems – can raise conflicts between the multiplicity of stakeholders (both between the various levels and inside the individual level), which derive from the numerous interests in play (Kickert, et al., 1997; Goldsmith and Eggers, 2004). In essence, networks including a plurality of interdependent stakeholders require coordination and collaboration (Kickert, et al., 1997; Bovaird and Löffler, 2003). Conflicts have to be transformed into both horizontal cooperation (between local governments, corporations, etc.) and vertical cooperation (between levels).

It is not always easy to achieve cooperation between the parties involved. As discussed by Bardach (1998) and Kickert, et al., (1997) Stable collaboration is reached over time when stakeholders interact on the basis of institutional and economic relations, have reciprocal trust and reach the awareness that cooperation can provide

common advantages. The development of reliable relationships becomes necessary for the sharing and coordination of information on performance and qualitative standards, as well as for the formulation of common strategies and joint actions by the involved stakeholders (Erridge, 2003; Bovaird and Löffler, 2003).

As announced in the introduction, this paper focuses on corporate governance models of water service management and the next section provides a description of the institutional settings of the Italian and the Swedish water sectors.

## Water sector institutional settings in Italy and Sweden

### 3.1 Italy

The Italian water sector is regulated by the 2006 Environment Act. Besides national regulations, regional laws are important, while the European Commission directives on water quality, environmental protection and competition within organizations providing services of general economic interest also impact the Italian water sector.

The territory of each Italian region is divided into Optimal Territorial Areas, in which management of integrated water services (including drinking water provision, sewage and waste-water treatment) has to be carried out by a single managing company. There is a separation of management functions (which have been delegated to managing companies) from that of regulation (which concern direction, planning and control of water services) performed by the bodies presented below (Argento, 2008).

The Italian national government, represented by the Ministry of Environment, identifies the general direction of water policy for the country, respecting European Union politics on competition and the environment. The regions, by enacting regional laws, identify Optimal Territorial Areas for the provision of integrated water services and set guidelines for regulating the relationships between local governments falling within the same Area and the managing company of the respective Area.

The local governments of each Area constitute the Area Water Authority (AWA). The AWA is the “local regulator” which is responsible for planning and monitoring the provision of integrated water services within the respective Area. It delegates management of the integrated water service to a joint-stock company. The two parties' duties and rights are set in a service contract. This agreement allows the local regulator to periodically control the activities carried out by the managing company. The AWA's monitoring action is focused on the level of provided services, the tariffs applied and collected by the managing company, its financial situation, and customer satisfaction (Riccaboni, 2003). The size and functioning of these regulators have severely been criticized and it is still uncertain if they will survive or if their function will be taken over by the regions.

The National Commission for monitoring the Water Resources has the duty of guaranteeing the effective functioning of the entire water sector. It collects, processes and disseminates data and information on the water experiences of the whole country. The Commission has created the integrated water service tariff method that has to be used by each AWA in order to set the tariff levels – which must cover the costs of the entire water services cycle according to a price-cap system – that have to be applied in each Area and directly collected by the managing company.

From research carried out by the Commission, it resulted that most of the managing companies are totally owned by municipalities (public capital), or are mixed public-private corporations. Only few AWAs opted for a private corporation. Moreover, most of the externalizations were achieved directly, without making competitive comparisons via public tendering (Commissione Nazionale per la Vigilanza sulle Risorse Idriche, 2010).

## Sweden

The Swedish water and sewage (waste-water collection and treatment) sector is regulated by the Public Water and Waste-water Plant Act from 2006, national laws regarding environmental protection and water quality as well as the food legislation. The water and sewage sector in Sweden is also subjected to the directives issued by the European Commission regarding drinking water and protection of water sources. The municipalities are the responsible authority for the provision of the services. Supervision is executed by the County Administrative Board and the municipal environmental and health authorities.

The municipalities are – according to the Swedish Local Government Act – autonomous, which means that they to a large extent have the ability to decide how to arrange the provision of public services. As a consequence, there are variations between municipalities in Sweden in regards to how the provision of services is organized. In-house solutions or municipally owned corporations are still the most common solutions, but as the pressure on technological and environmental improvements and financial restraints has increased, different kinds of inter-municipal cooperations have become more common. One way to organize inter-municipal cooperations is by creating a jointly owned limited corporation, another is to form a local government federation. Yet another solution, but a less common one, is to externalize all or some of the services through public tendering.

According to the Public Water and Waste-water Plant Act, the calculation of the fees is to be based upon the so called “cost price principle” meaning that the fees charged for the provision of water and sewage services can not exceed the actual cost the municipalities has for providing the services. Since the level of the fee is based on actual costs, it is influenced by geographical conditions and the level of investments and maintenance. Consequently the level of the fee charged differs from

one municipality to another. The “cost price principle” requires a separation of the financial statement for water and sewage services from the rest of the municipal activities.

## Case studies

### 4.1 The case of water service in the Lazio region

This section examines the case of Lazio region water services, which consists of a plurality of interacting stakeholders: public administrations (the region, the provinces and municipalities), local regulators (the AWAs), a regional authority – who evaluates the services supplied in the five Optimal Territorial Areas, formulates proposals and adopts initiatives to protect user interests, four integrated water service companies and several customer associations.

With 1996 regional law n. 6, the Lazio region territory was divided into five Optimal Territorial Areas, generally coinciding with the five Lazio provinces: Area 1 Lazio North – Viterbo (61 municipalities); Area 2 Lazio Central – Roma (112 municipalities); Area 3 Lazio Central – Rieti (81 municipalities); Area 4 Lazio South – Latina (38 municipalities); Area 5 Lazio South – Frosinone (86 municipalities).

The following sub-section highlights the corporate governance models introduced by the Lazio region for the management of integrated water services.

### Corporate governance of water service managing companies

The Lazio region has a rather heterogeneous group of water service managing companies. Moreover, it has all of the management models specified by the national Legislator: tender to a private company, joint venture between public and private partners, in-house provision. Only Area 3 Central Lazio – Rieti has not yet identified the managing company.

The four Lazio water companies all adopted the traditional Italian corporate governance model, which includes a Shareholders’ Assembly, a Board of Directors and a Board of Auditors. The Shareholders’ Assembly appoints the Board of Directors invested with management functions, as well as the Board of Auditors which carries out supervisory functions. Therefore, the Board of Directors is the strategic corporate body where partner interests (public and/or private) are represented. Italy follows a one-tier-concept: the Board of Directors consists of external and internal members and is exclusively accountable to the Shareholders’ Assembly. This Board has both executive and supervisory functions. Members of the Board are usually appointed by the public owners and in the case of a mixed public-private corporation also by the private owners.

In Area 1 Lazio North – Viterbo it was opted for the in-house management model by delegating the integrated water service to Talete SpA, a 100% publicly owned joint-stock company with fragmented ownership. The

company is owned by the province of Viterbo (10% of the capital shares), while the remaining part of the public shares is distributed among 35 municipalities. The Shareholders' Assembly (made up only of public partners) appoints the Board of Directors and (from among those members) elects a President and Vice-President. The Board of Directors is the administrative body of Talete SpA, which is currently composed of three members appointed by the public partners. The Board of Auditors is appointed by the Shareholders' Assembly and is composed of three Auditors.

In Area 2 Lazio Central – Roma, management of the integrated water service was entrusted directly to Acea ATO 2 SpA, a joint venture participated in 96% by ACEA SpA (quoted on the Italian stock exchange, 51% public and 49% private) and in a minority share (4%) by the 112 municipalities belonging to Area 2 and the province of Rome. The Board of Directors is composed of eight members, five of whom are designated by ACEA SpA. One member is designated by the municipality of Rome, one by the province of Rome and one is jointly designated by the municipalities included in Area 2. The Board of Auditors is composed of three members and two alternates. Two of the three members and one of the two alternates are designated by ACEA SpA; the others (one member, one alternate) by the minority. Corporate auditing (accounting control) is conducted by an auditing firm to whom the task is bestowed for the three years.

In Area 4 Lazio South – Latina, management of the service was assigned to Acqualatina SpA, a joint stock company with a public majority. 51% of its capital shares is owned by public partners (the province of Latina and 33 municipalities), with the remaining 49% owned by one private limited company, Idrolatina Srl (participated in by the French Compagnie Generale des Eaux), which was selected through a public tender. The Board of Directors is composed of seven members (four appointed by public partners and three by private partners). It elects the President, choosing from among the elected representatives and the lists presented by public shareholders, while the Vice-President is chosen from among the elected representatives and the lists presented by the private partners. The Board of Auditors is composed of three members and two alternates.

Area 5 Lazio South – Frosinone represents one of the few cases in Italy of water services outsourcing to a privately-owned company (Acea ATO 5 SpA) via a public tender. The Board of Directors is composed of five members: the President, the Chief Executive Officer and three members. As the Directors are appointed by the private owner, the service contract stipulates that in the Board there can be a representative of the local governments as an observer. The Board of Auditors is composed of three members and two alternates elected by the Shareholders' Assembly. One auditor is appointed by the Area Water Authority.

#### **4.2 The case of water service in Stockholm region**

Stockholm region consists of Stockholm city, which is the capital of Sweden, and surrounding municipalities and is one of the most densely populated areas in Sweden. Looking at the municipalities in the Stockholm region different solutions for the provision of water and sewage services can be found ranging from in-house solutions to different kinds of inter-municipal cooperation and public tendering. In line with the aim of this paper this section will focus on one example of public tendering and one example of inter-municipal co-operation in a jointly owned corporation.

#### **Norrtälje: Corporate governance in a case of public tendering**

The tendering process in Norrtälje was initiated in 1999 by the governing political parties in the municipality. The result of the tendering process was that a private contractor in 2002 took over the operation and maintenance of water and sewage services in the municipality. The contract was for ten years with the possibility of two years extension.

The decision to put the water and sewage services out for tender was based upon a felt need to increase the control over the production of the services and to enhance the knowledge within the own organization regarding the quality of the infrastructure and the assets. A market oriented organizational solution with focus on ordering activities, monitoring and evaluating the production was believed to enhance the control. Further, the inventory of the assets and the infrastructure – that was necessary to do before the tendering process was initiated – was believed to enhance the knowledge among the civil servants regarding the status of the assets.

When the contract was up and running a central function became the monitoring process. For this, the municipality organized a special unit of civil servants with competence within the field of water and sewage production and maintenance as well as tendering processes. The monitoring of the activities conducted by the contractor relies to a large extent on the information the contractor provides the municipality with and the documentation of the output of the production. What the contractor is to report to the municipality and how frequently the reports are to be given is established in the contract. This information is collected and documented by the responsible unit, which in turn reports back to the political organization in the municipality. Meetings are held on a regular basis between the contractor and civil servants where discussions regarding need of maintenance, re-investments and new investments take place.

At an early stage in the contract period in Norrtälje divergent interests surfaced between the contractor and the municipality regarding the interpretation of the contract. One problem has been the interpretation of which activities the contract encompasses and how to interpret the division of responsibility for investment and maintenance as well as to come to an agreement regarding the differences between investment and maintenance. Efforts were made by both parties to

improve the flow of information and as time has passed the two parties have become more accustomed to working together, and the differences have gradually been sorted out.

### **Roslagsvatten: Corporate governance in a case of inter-municipal cooperation**

Roslagsvatten AB is a limited corporation, owned by six municipalities in the Stockholm region. As a limited company Roslagsvatten is subjected to the Swedish Company Act. As a municipally owned corporation providing water and sewage services the corporation is also asubjected to the Local Government Act and all the laws regulating the production of water and sewage services.

In the Swedish model the owners exert their influence over the corporation on the annual Shareholders' meeting where they appoint representatives to the Board of Directors and Auditors. The Auditors are responsible for the internal financial control of the corporation. The general annual meeting approves (or does not approve) the annual report. In Sweden it is common to appoint politicians as Directors on the Board of municipally owned corporations, which means that the composition of the Board of Directors reflects the political situation in the owning municipalities.

The owner directives are the most important control mechanism. The directives are elaborated by the company and decided upon by the municipal councils in each owning municipality. Besides the directives, there is an agreement between the owners. This agreement establishes the relationship and division of responsibility between the owners and the corporation.

The corporation is organized as a concern, with a mother company and four subsidiaries owned by the four largest owners. The mother company is responsible for the daily operations and for the employment of the staff of the entire concern and is governed by a Board of Directors consisting of politicians from the four largest owners. Each of the four subsidiaries is governed by a Board of Directors consisting of politicians from the municipalities. These Boards are responsible for decisions regarding the administration of the infrastructure as well as the level of the fee charged for the services performed and for making decisions regarding investments.

The way the company is organized means that the assets, as well as cost and revenues of one municipality, are separated from the others so each municipality decides the level of the fee and the level of investments, as required by the law. The only factor that restricts the ability of the municipalities to make such decisions is the mutual agreement between them and the corporation. The agreement establishes a minimum required level of quality of services produced, the technical status of the assets and environmental goals and forces the owners to live up to a certain standard.

### **Comparative analysis**

This section draws a comparative analysis by presenting the main issues of the two country studies described above.

#### **5.1 Italy**

The Lazio region is characterized by the presence of numerous stakeholders responsible for regulating and managing the water services. Among the Area Water Authorities, the regional authority and the managing companies a number of horizontal and vertical relationships were established.

On the one side, municipalities encourage continuous improvement of the water services, but on the other side they must ensure that the managing companies can realize investments in infrastructure and operate with a sufficient degree of autonomy. However, municipalities must also ensure that the independence of the managing companies does not cause an excessive and rapid increase in tariff levels (at the expense of users) and compromise the quality of services. Thus, the management of contractual relationships established between AWAs and the water company assumes considerable importance. In accordance with Grossi and Mussari (2008) and Erridge (2003), the Lazio region case shows that often, local governments belonging to the same Area do not fully embrace their role as local regulators and do not adequately control the performance of the managing company. In general, the AWAs encounter difficulties in performing their task of local regulator, as the planning and control of integrated water services management is increasingly complex and demands strong entrepreneurial skills. Local regulation is necessary, above all, when the corporation that manages the water services is private, and the municipalities falling within the Area cannot internally control the decisions and events of the corporation (e.g. the case of Area 5 Lazio South – Frosinone). Such circumstances place the AWA in an unfavorable position with respect to the water company because of – as suggested by Cooper (1998) – the unequal distribution of information (information asymmetry).

In addition to contractual relationships, special attention should be paid to the financial control relationships established between local governments and water companies. In Area 2 (Lazio Central – Roma) and Area 4 (Lazio South – Latina) the ownership structure of the water companies is that of a public-private partnership. In these cases, the problems of information asymmetry are reduced, but the municipalities face the problem – highlighted by Riccaboni (2003) – of simultaneously being the local regulator and the owner of the water company. This creates conflicting interests not fully resolved by the existing corporate governance rules and the agreements between public and private partners. In the case of in-house corporation (Area 1 Lazio North – Viterbo), there was a period of management paralysis due to political conflicts internal to the AWA, that determined the appointment of a new Board of Directors for the water company (Talete SpA) by the municipalities (and in contrast with the political orientation of the province).

In this sense, this latter case verifies the problem of politicization of the Board – that members are not appointed based on managerial criteria but exclusively on the basis of political criteria.

The analysis conducted in the Lazio region demonstrates that customers ask to be much more involved in decision-making processes. In Lazio, various organizations are therefore put in charge to guarantee and protect user interest; first above all, the regional authority, followed by the customer associations. Often, customers/citizens oppose the presence of private partners for fear that they are more interested in profits and raising tariffs, rather than in satisfying consumer needs. Such worries were confirmed in Area 4 (Lazio South – Latina), where Acqualatina SpA considerably increased tariffs. In most cases, a tariff growth is necessary if the revenue is to be used for the planned investments. Nevertheless, in the case of externalization to a mixed corporation or to a private corporation the key problems are related to growth of tariff levels without a corresponding improvement of the water infrastructures. The 100% publicly-owned Talete SpA shows losses that the municipalities must cover. In this case, the municipalities must take into account in what manner service levels can be improved – an increase in tariffs or a request to citizens for higher local taxes.

The empirical evidence also demonstrates that in the Lazio region there are still many problems to be resolved. Not all the water companies have succeeded in attaining satisfactory level of water services. Additionally, the AWAs must further develop their planning and control skills. In order to achieve more effective and efficient management of the water service, greater cooperation between the various stakeholders is required. Thus, a larger role can be assumed by the regional authority who, by emphasizing participation and benchmarking activities, can contribute to establishing collaboration and facilitating learning occasions targeted at achieving desired results.

## **5.2 Sweden**

Due to the challenges facing municipalities in Sweden they have looked for organizational solutions that increase the scope of the production. As a consequence, different kinds of inter-municipal co-operations have become a common solution for organizing the production of water services. The strive among municipalities to find organizational solutions that enable individual municipalities to respond to the challenges facing them has resulted in an increasing need to interact with other stakeholders and in the need to coordinate the interest of different stakeholders (Bovaird and Löffler, 2003; Bardach, 1998). With inter-municipal cooperation as well as with public tender the stakeholders have, as Kickert et al. (1997) discuss, common goals and are depending on each other for the outcome of the organization. That is, they both have a stake in the organization. At the same time the owners have individual interests they want to protect. As a result, divergent interests can emerge in horizontal as well as vertical relationships.

The case of Norrtälje as well as the case of Roslagsvatten show that when various stakeholders interact in order to influence the outcome a need to coordinate the interest of stakeholders emerges. In the case of Roslagsvatten this has been conducted through the establishment of written agreements and owner directives. Besides the written agreement, communication has turned out to be an important tool for securing coordination. Leading this process has been the managing director together with the chairman of the Board of Directors. Holding the position in the middle of the networks, as the managing director does, has in the case of Roslagsvatten turned out to be advantageous when it comes to coordinating stakeholder interests (Thomasson, 2009). That the managing director holds a central position is not only positive. Owners have expressed how they feel that they with many owners involved have only a small influence over the company and the strategic direction taken and that instead it is the managing director that governs the company. This could be a result of a lack of coordination between the owners in regards to the governance of the company.

When looking at the two Swedish cases here described we can see how the involvement of different stakeholders has, as described by Erridge (2003) as well as Bovaird and Löffler (2003), required more coordination as well as the need to formulate common strategies. What also seems to have been important is, as discussed by Erridge (2003) and Bovaird and Löffler (2003), the development of reliable relationships and to share information and formulate common strategies. In both cases the trust between the parties involved in the production has been crucial in order for the collaboration to work. To build this trust, focus has in both cases been on sharing information and establishing joint agreements. However, it appears as though the process in Norrtälje has been more difficult than the process in Roslagsvatten. One possible explanation to this is that in the case of Norrtälje the parties involved have a more heterogeneous background (private and public). It could be that when stakeholders have heterogeneous backgrounds it becomes more difficult to establish trust and improve flow of information and overcome problems with information asymmetry.

## **Concluding remarks**

The water services in Italy and in Sweden are facing similar challenges with increasing demands on efficiency, quality and environmental considerations. The first purpose of the paper was to see how the two countries facing similar challenges – and both influenced by New Public Management reforms – have decided to respond to these challenges.

From comparing the Italian and the Swedish institutional settings we can see that there are many differences. The most apparent difference is the level of responsibility. In Sweden this lays with the municipalities/local authorities, while in Italy the responsibilities are spread among the regional and local levels. However, we could also find similarities. In both

countries the response to the challenges faced has been the introduction of organizational solutions that has resulted in that the role of the local government has changed. The local government is no longer directly involved in the production of the services; instead it has assumed a more controlling and governing function. This has in turn imposed new challenges on the public authority when it comes to managing the governance of these new organizations and the separation of ownership and control that comes with it. The second purpose of the paper was to compare the corporate governance models adopted in Italy and Sweden and what problems are at stake.

From the analysis of the empirical evidence we can see that the governance challenges in both cases consist of managing the increasing number of stakeholders involved and particularly to coordinate the divergent interests among stakeholders. Without a coordination of stakeholders' interests there seems to be a risk of conflicts arising among the parties involved. For example, the case of Lazio region highlighted: a lack of control of water company (financial and non-financial) performance by the Area Water Authorities; the risk of management paralysis due to political and institutional conflicts; the growing autonomy of the managing companies and a greater orientation towards profit. That is, some critical effects can be expected, for instance, the loss of common interests in favour of a stronger profit orientation, de-publicization of local affairs and increased commercialization.

The importance of monitoring the company was also noted in the case of Norrtälje as well as the conflict between common interest and profit orientation. The risk of company managers to behave like counterparts from the private sector is something that was detected in the case of Roslagsvatten where the presence of several owners has rendered the managing director and the chairman of the Board power to influence the strategic direction of the company. This requires coordination between the owners in terms of governance, which has been lacking in the case of Roslagsvatten.

From both the case of the Lazio region and the case of the Stockholm region we could see how the difficulty to coordinate governance activities between the stakeholders involved, increased when the stakeholders involved had different backgrounds, i.e. when the network consisted of stakeholders stemming from the public as well as the private sector. One likely reason for this is that the different background makes it more difficult to define common strategies, as was also suggested by Erridge (2003) as well as Bovaird and Löffler (2003). What these authors also point out is the need of reliable relationships, which perhaps is another thing that becomes more difficult when the stakeholders background are different.

Balancing the interest of stakeholders is thus required in order to achieve sustainable relations and with that sustainable organizational solutions. Sustainable organizational solutions are in turn a necessity in order to secure that the production of water services is efficient,

holds a good quality and lives up to the environmental standards. Then how can this be achieved?

Following desirable solutions for facing the emerging problems can be identified based upon the empirical evidence:

- In the case of public tendering and contract situations greater attention to contractual relationships (drafting and monitoring of a service contract) is necessary, as well as to their financial effects. Local governments should fully embrace their role as purchaser. They should be skilled at clearly defining the quality of service expected and be able to constantly monitor it.

- Greater attention to financial relationships (ownership relations between local governments and participating corporations) and to potential financial risks. The local governments must regain their role as owner of the infrastructures and corporations (partial or total ownership). They have to be in a position to use suitable planning and control tools for monitoring the corporations' accounting performance in order to anticipate situations of financial crisis.

- Need to strengthen the internal mechanisms of accountability between top politicians (elected by the citizens) and corporate managers (elected by the politicians and/or by private ownership), while introducing tools of corporate governance already present in companies listed on the stock exchange (for example codes of behavior and/or corporate governance codes).

- Need to strengthen the external mechanisms of accountability between the corporations and citizens/users of the services by involving them much more in the negotiation and monitoring of service standards.

What needs to be kept in mind is that the suggestions here put forward is based upon one comparative study of one Italian and one Swedish region. There are reasons to believe that other regions in Sweden and Italy as well as the water sector in other European countries face similar challenges. Nevertheless, further studies are needed in order to fully understand the challenges the new organizational forms impose on the governance of the production of water services in particular and public services in general.

## References

1. ARGENTO D., 2008, *Il dominio del cambiamento nella governance del servizio idrico: una comparazione fra Italia e Paesi Bassi*, Cedam, Padova.
2. BARDACH E., 1998, *Getting Agencies to Work Together. The Practice and Theory of Managerial Craftsmanship*, The Brookings Institution, Washington.
3. BOSTON J., MARTIN J., PALLOT J. and WALSH P., 1996, *Public Management: The New Zealand Model*, Oxford University Press, Auckland.
4. BOVAIRD T. and LÖFFLER E. (ed.), 2003, *Public Management and Governance*, Routledge, London.
5. COMMISSIONE NAZIONALE PER LA VIGILANZA SULLE RISORSE IDRICHE, 2010, *Relazione annuale al Parlamento sullo stato dei servizi idrici. Anno 2009*, Roma.
6. COOPER S., 1998, *Control, Accounting and Value-for-Money Implications of Utility Regulation: a Literature*

- Review', *Managerial Auditing Journal*, Vol. 13, N. 2, pp. 117-125.
7. DENTERS B. and ROSE L.E. (ed.), 2005, *Comparing Local Governance. Trends and Developments*, Palgrave Macmillan, New York.
8. EISENHARDT K.M., 1989, 'Building Theories From Case Study Research', *The Academy of Management Review*, Vol. 14, N. 4, pp. 532-550.
9. ERRIDGE A., 2003, 'Contracting for public services. Competition and partnership', in Bovaird T. and Löffler E. (ed.), *Public Management and Governance*, Routledge, London, pp. 89-99.
10. GOLDSMITH S. and EGGERS W.D., 2004, *Governing by Network. The New Shape of the Public Sector*, The Brookings Institution, Washington.
11. GROSSI G. and MUSSARI R., 2008, 'Effects of Outsourcing on Performance Measurement and Reporting: *The Experience of Italian Local Governments*', *Public Budgeting & Finance*, Vol. 28, N. 1, pp. 22-38.
12. KICKERT W.J.M., KLIJN E.H. and KOPPENJAN J.F.M. (ed.), 1997, *Managing Complex Networks. Strategies for the Public Sector*, Sage, London.
13. REICHARD C., 2006, 'Strengthening Competitiveness of local public service providers in Germany', *International Review of Administrative Sciences*, Vol. 72, N. 4, pp. 473-492.
14. RICCABONI A. (ed.), 2003, *Acqua. Fra incidenza sociale ed efficienza gestionale*, Firenze: Il Ponte Editore, pp. 323-353.
15. THOMASSON A., 2009, *Navigating in the landscape of ambiguity: A stakeholder approach to the governance and management of hybrid organizations*, Lund Business Press, Lund.
16. YIN, R.K., 2003, *Case Study research: design and methods (4 ed.)*, Sage Publications, Thousand Oaks, CA.