

WORKING PAPER

*Delivering ICT Shared Services to Local Governments:
A new species of public enterprise?*

Maddalena SORRENTINO & Massimo SIMONETTA



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***Delivering ICT Shared Services to Local Governments:
A new species of public enterprise?****

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Abstract

The past decades have seen the OECD countries attempt a number of sourcing practices in local governments, including corporatization, collaborative arrangements and partnerships. One such option is to share services, an emerging strategy that casts a new actor in a leading role, i.e., the shared service organization or 'SSO'. In the field of Information and Communication Technology (ICT) these special-purpose vehicles deliver services to the sharing councils based on models other than publicly funded collaboration arrangements and the usual ICT outsourcing practices. The paper uses an explorative case study to analyse the SSO route taken by an Italian enterprise, wholly owned by a public utility, in which it steers and guides its client councils on their ICT strategies. The article offers a general reflection on the new SSO's operating model, discussing its hybrid nature (part-private and part-public), the system of multiple local relations and the indirect influence the SSO has over the ICT decisions of the client councils.

Keywords: Shared service, Sourcing arrangements, ICT, Public enterprises, Organization studies.

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Introduction

The ICT (Information and Communication Technology) sourcing strategies of local governments are going to change dramatically in the months ahead.

In 2010, Italy enacted new financial stability measures that oblige small councils (defined as those with up to 5,000 residents) to form aggregations to produce and deliver all their main functions and services. Further, the councils will have to reshape their organizational processes when Italy's new Digital Administration Law (*Codice dell'Amministrazione Digitale* or 'CAD'), aimed at accelerating the migration from paper-based to digital practices, comes into effect.

The Italian government's earlier moves to get the local councils to maximize effectiveness and efficiency through stable ICT collaborative initiatives have produced a record of hits and misses (Ancitel, 2010; Ferro & Sorrentino, 2010). The current scenario highlights the structural fragility of the inter-municipal collaborations implemented in the mid-2000s, very few of which have survived despite the funding received from both the central and the regional governments. In fact, most ICT collaborative ventures have had to rely on external funding sources to meet both investment and ordinary operating costs, while others have failed to generate the tangible benefits that would improve both the delivery and the cost-effectiveness of citizen services. Moreover, not even the captive companies (i.e., public-private partnerships) have fared any better in the dynamic and fiercely competitive market of software applications (Assinform, 2012).

Meantime, the councils are spurred by the global economic downturn and public spending cutbacks to implement internal reforms and improvements (Accenture, 2006, p. 505; Warner & Hebdon, 2001). Nevertheless, unlike the past, the decision of the individual councils (now that inter-municipal collaboration is imposed by Italian law) to work together is no longer left solely to their discretion and neither can they count on new money from the government.

These factors underscore the huge challenges facing the central, and especially local governments, even though this is somewhat mitigated by the broader range of tools and more creative options the public managers can deploy (IRPA, 2012; Warner & Hebdon, 2001). One such option is an emerging strategy originally developed in the corporate sector in the late 1980s (Walsh, McGregor-Lowndes, & Newton, 2008) called shared service.

But what does the term "shared services" mean exactly? In fact, it can mean many things (Local Government Association, 2013, p. 294). "Shared Services" (SS), "Shared Service Organizations" (SSO) and Shared Service Centres (SSC) are all umbrella terms for a concentration of one or more processes spread across one or more organizations or across more divisions of the same organization. An SSO can aggregate activities, functions, systems and

personnel in one single hub of competences from which they manage these activities as core business processes. In large corporations, the SS option is chiefly a means of unbundling the former in-house functions of departments such as Finance and Accounting, Human Resource Management, Procurement, and Information Systems Management to achieve efficiency gains by focusing on the ongoing improvement of processes (Walsh et al., 2008, p. 200).

In the public sector, the progressive adoption of SS arrangements is taking place both as an independent choice of the individual administrations (Accenture, 2005; Dollery & Akimov, 2008; Joha & Janssen, 2011) and as a response to precise mandates, like in the case of the US, where the government has ordained the closure of 800 of its 2,000-plus data centres by 2015 (Ghia, 2011, p. 18). Australia also sees SS as a valid alternative to the forced amalgamation of councils (Borman, 2010; Walsh et al., 2008).

Research conducted in 13 different countries (Accenture, 2005; Oftelie, 2010) shows that most public organizations are full or part owners of their SSC. When Ohio Shared Services was established in 2008, it enabled the state government to consolidate the administrative back-office functions of 103 departments and agencies that employ a total of 65,000 people. In Finland, a similar choice was effected by the Ministry of Justice in 2004 and involved around 300 offices and more than 10,000 employees. Among the supranational bodies, the Food and Agriculture Organisation (FAO), the United Nations body responsible for developing the agricultural programmes of the emerging countries, has concentrated into solely three hubs its administrative services and first-level help-desk service, involving about 100 offices (6,000 employees) in as many countries. A further consolidation project under way will eventually enable FAO to channel all its worldwide back-office activities into solely one dedicated SSC.

From the information systems (IS) perspective, shared services are of specific interest for two main reasons. First, because information technology service sourcing has become the most common type of technology service that organizations seek from inter-organizational relationships (Hui, Fonstad, & Beath, 2008, p. 261) and, second, because many (if not all) other public services are dependent upon IS for their delivery (Borman & Janssen, 2012, p. 2511).

The qualitative research presented here aims to address the SS option in the ICT domain on an empirical basis and thus provide lessons for decision-makers considering such arrangements. Specifically, the paper reports the experience of “Conorzio.IT” (*Conorzio Informatica e Territorio Srl*), an Italian public-owned enterprise that delivers ICT services to 47 mostly small councils in the south of Lombardy. The company was founded as a typical Public-Private Partnership (PPP) with two private ICT vendors as minority shareholders in 2004 to provide the local councils with ICT outsourcing and routine facility management services. Three years later, Conorzio.IT adopted an ‘SSO’ approach to manage a number of ICT-related functions for those councils.

Drawing on organization studies and some still largely explorative empirical observations, the paper argues that the strong relationships that bind the small councils to the vendors of standard application software solutions render impracticable the public enterprise model that offers council clients a full range of standardized ICT services from under one roof. On the other hand, the field data collected show very clearly that a public SSO can be economically sustainable if it adapts to the “multi-sourcing” strategies of the client councils, i.e., the selection and combination of ICT and business services from multiple providers (Levina & Su, 2008).

The study contributes to the research on public enterprises in three ways. First, it reconstructs the experience of a public SSO with a different business model to those commonly adopted by the sector’s other public actors. Second, it helps to deepen our understanding of the hybrid nature of this enterprise, which is both a tool to rationalize production and the epicentre of the multiple relations between local players. Third, the article proposes a general reflection on the changes induced by the SSO in the local area and the underlying organizational logics that inform actual practices.

The paper next discusses the literature that can shed light on the SS option in the public sector and then provides a contextual overview of the Italian ICT market before turning to the case study. The empirical evidences gathered are grouped under three key headings: nature of the company, evolutionary path and organization issues, which are then commented on. Finally the paper highlights some lines of intervention of use to the senior management of local governments and their implications.

1. Theoretical underpinnings

Externalization practices at the level of inter-organizational relations are typically justified using the transaction costs theory (Williamson, 1985), which formulates explanations to the various sourcing solutions in terms of efficiency through the comparative analysis of the production costs and transaction costs of the diverse configurations. According to the basic version of this theory, the general assumption to define and project the appropriate corporate boundaries is that the internal organization is more efficient in coordinating the transactions between the different activities in conditions of uncertainty, contractual incompleteness and the presence of conflicts of interests (Grandori, 1999). Transactions costs analysis also figures importantly in analyses of the public sector (Hefetz & Warner, 2012, p. 290).

Then the managerial literature adds the labour division principle to the mix according to the so-called “distinctive competences” (Penrose, 1959) of the different industrial partners. The specific advantages of internal governance to the organization in terms of distinctive competences are first the potential to generate new value; second, the ability to do so inexpensively through the better use of resources and available knowledge; and, third, the ability to use

communication channels that are direct, informal, diffused and already in use in an innovation-driven organizational structure. Hence, the advice to not externalize activities or resources in which distinctive competences are embedded and which generate enduring competitive advantages (Grandori, 1999, p. 497).

Unlike a business organization, it is hard to establish what constitutes ‘core competence’ in the public sector (Alford & O’Flynn, 2012, p. 45), while the existence of potential strategic costs make externalization inappropriate. The risk of losing public trust or stakeholder support if the external provider has a poor reputation is one example (*ibidem*, p. 48). This means that in some circumstances the externalization choices may be highly problematic and complex. In other words, charting boundaries of efficiency for a public organization can affect its strategic position, its ongoing capability to perform its mission and its political standing (Alford & O’Flynn, 2012, p. 55).

The widespread adoption of non-hierarchical organizational solutions is related to a process of cultural transformation that developed in the late 1980s. The transposition to the public sector of business concepts, techniques and values in line with the approach commonly labelled New Public Management (NPM) (Pollitt & Bouckaert, 2011, p. 10) has acquired diverse nuances and implementation patterns. NPM is ‘a bundle of specific concepts and practices’ (*ibidem*), including: greater emphasis on performance, especially through the measurement of outputs; a preference for lean, flat, small, specialized (disaggregated) organizational forms; and a wider substitution of contracts for hierarchical relations (or contractualism). The assumption of contract logic in hierarchical situations is applied to the intra-organizational relations (between the units or departments of the same organization) but explicates mainly at the inter-organizational levels, i.e., between public bodies that outsource the management or the production of services based on different legal forms: agreement, collaboration arrangements, contracts, tenders, partnerships, and so forth.

Academic research (Citroni, Lippi, & Profeti, 2012b) highlights how outsourcing and partnering have helped to profoundly reshape the conceptual identity of public and its forms of action in an array of intervention areas. This ‘remapping’ process, which has pervaded the institutional setting of all OECD country governments (*ibidem*), has spawned many different forms of inter-municipal cooperation (Hulst & van Montfort, 2012). The growing number of public-owned or mixed-ownership companies is yet another milestone in the transition to new forms of public action (Warner & Hebdon, 2001). In Italy, this trend has developed rapidly and the country now has 5,152 council-owned or part-council-owned companies (Unioncamere, 2009), which equates to almost two-thirds of Italy’s councils. That figure becomes even more impressive when we look at the data for 1973, when such companies numbered a mere eight (Citroni, Lippi, & Profeti, 2012a, p. 77).

Public shared services have not yet attracted the same level of media attention as public utilities and, moreover, are a terrain in which many aspects remain unexplored. While SS are often considered a form of outsourcing even this aspect has failed to garner overall consensus. Nor do proponents agree on which is better (Sako, 2010). The practitioner and consultant literature see shared services arrangements as highly promising solutions when it comes to the operational efficiency of the local governments. Interestingly, the current debate (e.g., see: Alford & O'Flynn, 2012; Sako, 2010; Scannell & Bannister, 2012) shows that – regardless of the stance of the observers – the ‘cost-cutting promise’ and the promise to access expertise not held in-house (Alford & O'Flynn, 2012, p. 87) play a key role in the decisions to redesign internal functions via newly emerging ‘market’ relationships (Bovaird, 2006). Other general advantages of the SS frequently cited by the analysts include eliminating the duplication of effort and the potential for greater organizational resilience and capacity (Tomkinson, 2007, p. 33). Walsh and colleagues (2008, p. 202) argue that SS arrangements ideally facilitate a process of continuous innovation and improvement in the quality and cost-effectiveness of services.

Depending on the backgrounds of the scholars, the SSO can be approached from many different angles. For example, the descriptive interpretive key is especially helpful to spotlight the importance of this option, the variety of the services and functional areas involved, the drivers of its development, the different routes to sharing, the main implementation patterns (Herbert & Seal, 2012; Tomkinson, 2007) and the implications for all the actors on the stage.

Research efforts that adopt a more conceptual approach (Walsh et al., 2008) have identified and codified the main SSO business models. More recent studies have started to focus on some of the typical evolutionary paths trodden by shared service organizations with the aim of projecting potential future developments under certain conditions and identifying critical success factors (Borman & Janssen, 2012). As Dollery and Akimov (2008) observe in a review of the literature, most studies tend to adopt a pro-local shared service arrangements stance with no evidence to the contrary.

Tomkinson (2007, pp. 34-37) is one of the few authors to have analyzed both in general and in particular (i.e., related to specific situations) the disadvantages of sharing arrangements in local government. The general disadvantages, for example, include the implied relinquishing of control over resources, policies and practices between partner councils; the negotiation commitment of the potential sharers in the phase that precedes the effective delivery of the service; and the complexity of managing potential staff displacements. Another recurrent theme is the risks and obstacles related to the processes of organizational change required of the user organizations (Huxham & Vangen, 2004). On the other hand, the huge variety of cases and contextual conditions makes it hard to list the potential disadvantages related to a particular sharing arrangement. For example, the interested reader may refer to Sorrentino and Simonetta (2012) for

an analysis of some critical issues inherent in inter-municipal arrangements in the Lombardy Region.

We could continue much in the same vein, given the array of contributions that address the new aspects of the SS approach, but what we really want to know is what the true novelty of this option is: can we say that we are looking at a new species of public organization? Judging from the above discussion, the response to that question seems almost a given. Surprisingly, the exploration of such themes by organization studies has not yet been addressed systematically. This paper is an attempt to take an initial step forward in that direction.

But before we examine the case study and provide an empirical basis to help address our research question, we will first recap some of the contextual data to familiarize the reader with the topics referred to in this paper.

2. The Italian evidence: the local councils and the demand and supply of ICT services

Italy has 8,100 local councils, each with a similar organizational structure, services range, legal status and reporting requirements. In the past three years, the small municipalities (70.2% of the total) have been subject to regulatory reforms that aim to profoundly modify their operating conditions and future outlook. For example, the recent reforms that require councils with 5,000 residents or less (D.L. 31.5.2010 no. 78, modified by D.L. 6.7.2012 no. 95) to implement inter-municipal cooperation has a direct impact on the methods used by the small councils to manage their ICT resources because it obliges them to manage all core functions and activities in associated form by 1 January 2014.

The present state-of-the-art shows that while all Italian municipalities have implemented basic computerization, there are considerable differences in how they choose to manage their information technology and information systems.

Recent data published by Italy's national statistics bureau (ISTAT, 2013) show that 21 out of 22 Regional governments and 89.6% of Provincial governments have dedicated one or more internal office to autonomously manage ICT resources, while the local councils are less enabled, corresponding to 16.1% of mainly medium and large-sized councils.

Compared with the total number of local government employees, the number that work prevalently or exclusively on ICT-related activities slipped from 1.9% in 2009 to 1.5% in 2012, although the drop was certainly sharper (from 2.8% to 1.3%) when we look at the data for those councils with 5,000 residents or less, while the number of ICT and ICT-related workers at councils with 10,000 inhabitants or less fell from 1.9% to 1.2%. However, the percentages of the large councils remain more or less unchanged.

Clearly, the fact that the smaller councils have few financial and professional resources to allocate to technological innovation means that ICT is only a blip on their organizational charts; each council buys their ICT products and services

directly, spending an approximate combined total of Euro 100 million per year (Ancitel, 2010).

Italy has seen the rise and fall of a variety of ICT collaborative experiences in the form of *Unioni di comuni* and the *Centri servizi territoriali* (CST) over recent years (Assinform, 2013). Today, less than 10% of the former manage the ICT function in-house; in fact most of the Unioni rely on an adjacent CST, while a small number leave the individual member municipality to directly manage their ICT activities. An estimated 53 publicly funded CSTs operate in Italy, of which more than half have a municipal or provincial matrix. The regional CSTs not only act as service providers, but also coordinate the ICT resources of all the local agencies in their particular region.

The main services provided by the CSTs to the smaller councils are usually basic, such as connectivity, email, website management, certified email, digital signatures and help desk. However, some CSTs also provide more advanced services, such as the ASP (Application Service Provisioning) of the municipality's main application software (e.g., citizen personal records, taxes, land registry, one-stop shop) or the management of the local area information system.

The current scenario of public ICT suppliers also includes the companies controlled by the Ministries and other central government offices and the companies controlled by the Regional and Provincial governments (Assinter, 2013; ISTAT, 2013). As these companies mainly adopt the 'in-house providing' model, which is beyond the scope of our research agenda, the paper will not consider them.

2.1. *Role of ICT providers in small municipalities*

The intense and consistent action of penetration by the ICT companies that have specialized in this particular demand has shaped the current situation in which the smaller councils now find themselves, as observed by Italy's Ancitel (the national association responsible for coordinating the ICT policies of the municipalities), among others. Having colonized this market, these companies are now the *de facto* leaders and guiders of the innovation policies of the small local governments and do their utmost to safeguard their role and usefulness as the more or less exclusive partner of each council (Ancitel, 2010).

The suppliers possess digital administration know-how and possess a great deal more in-depth knowledge about the processes and products of the municipal administrative machinery than even the large system integrators that participate in the realization of e-government in the central administrations. This prerogative enables them to exercise their influence on the small councils in terms of not only the exclusive contractual status they enjoy, but also the hegemony of "those who know best" what is good for the user (Ancitel, 2010, p. 90).

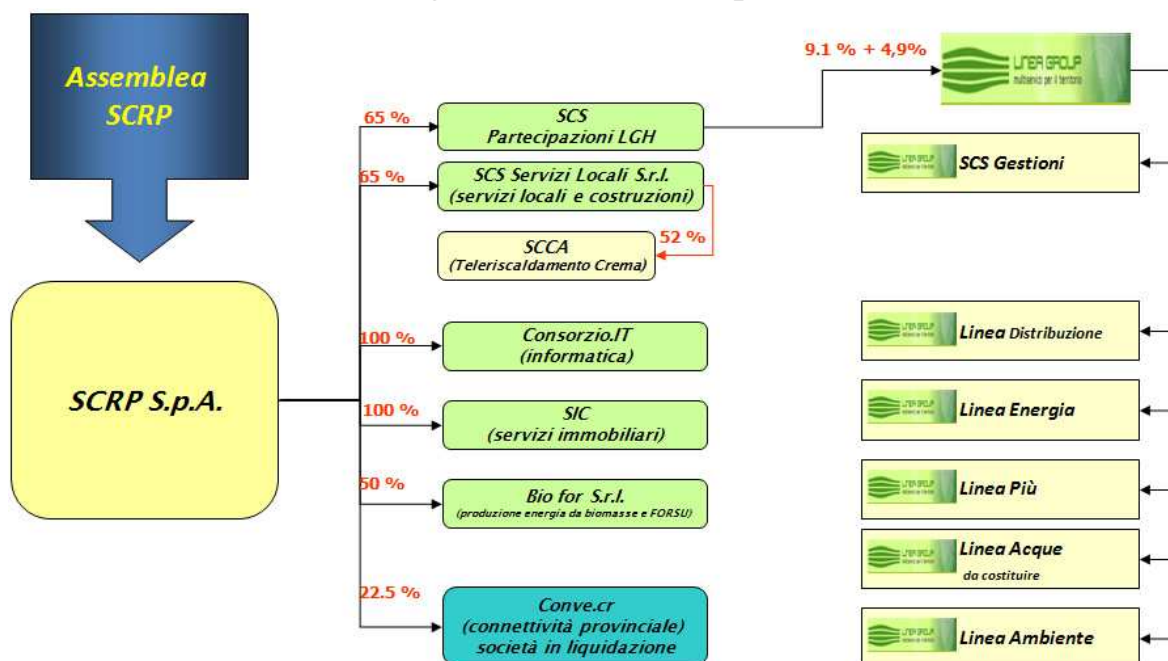
3. Research design, data collection, data analysis

The exploratory approach chosen by the authors takes account of the fact that the SSO literature is not yet fully consolidated; nevertheless, “good descriptions of what happens or what has happened on the ground” are necessary to effective theory-building and theory-testing (Pollitt & Bouckaert, 2011). Therefore, a full picture of the state-of-the-art and emerging trends of the public SSO is a solid foundation on which to chart a course of deeper exploration.

Research setting. High fragmentation (1091 out of a total of 1,546 municipalities have less than 5,000 residents) and approximately 500 inter-municipal arrangements in the most disparate sectors (IReR, 2009; Sorrentino & Simonetta, 2011) make Lombardy a primary source of evidence for our analysis. Lombardy has 340 companies in which the councils participate as opposed to the lead regions of Emilia Romagna and Toscana, which have 379 and 371, respectively (Citroni et al., 2012a).

Specifically, the following pages report the case of “Consorzio.IT” (*Consorzio Informatica e Territorio Srl*), the public-owned SSO that provides ICT services and support to 47 mostly small Lombard councils in the Crema area. After starting life as a typical PPP, Consorzio.IT (‘CIT’) is now 100% controlled by *Società Cremasca Reti e Patrimonio SpA* (‘SCRP’), a multi-utility founded in 1963 by 47 municipalities (now 52) and the Cremona provincial government to initially manage waste disposal and water treatment. Fig. 1, below, shows the SCR P SpA group’s current configuration and, in particular, highlights the diversified businesses in which SCR P is involved. The right side of the chart shows SCR P’s stake in the share capital of Linea Group Holding, an inter-provincial multi-utility that ranks second in Lombardy and sixth in Italy by size.

Figure 1 – SCR P Group



The Consorzio.IT case was selected for two main reasons:

- a) it is possible to longitudinally trace the history and evolutionary pattern of this public enterprise that initially adopted a typical in-house business model but significantly changed its mission along the way. Established in 2004 by SCRP to provide ICT services and facilities to partner councils through two private ICT service firms with minority stakes, the latter cashed in their shares in 2007, leading CIT to reposition the business with a range of innovative SSO-inspired solutions;
- b) good access to data. The fieldwork was facilitated by the fact that both the public enterprise analyzed and its parent company are based in the same building, about 50 km outside Milan. Further, the CIT case is familiar to one of the paper's authors, thus, the relations established with management enabled us to explore the strengths, challenges and limitations of the SSO model from the managerial and accountability perspective;

The field research took place between June 2012 and July 2013. Primary data collection consisted of semi-structured interviews with CIT staff to gather information on four main areas: activity, organization, environmental context and operations. The interviews lasted from 40-60 minutes and were transcribed by both researchers.

The interviews were held with two top managers, the CEO and the commercial director, and a line employee from the second-level help desk. A public meeting also gave us the opportunity to interview six mayors of the user councils. In July 2013, follow-up phone interviews were conducted with CIT. Other sources of primary data were email correspondence and archive data, such as company documents and websites, which latter was used to corroborate the findings of the two researchers across the case study and as an internal control for researcher bias.

4. The case study

Italy is famous for being a country of steeples and bell towers. Approximately 70% of its 8,100 municipalities have less than 50,000 inhabitants and most of those have a mere 5,000 residents or less. So it is hardly surprising that any action taken to support them sparks significant interest at several institutional levels.

The founding of Consorzio.IT is strictly related to this type of council. The year was 2004, a time in which the central government had implemented several measures, one of which earmarked Euro 15 million for the inclusion of the small councils in the national e-government agenda. But that amount was far too low to fund all of Italy's small local governments and thus sowed the seeds of uncertainty on the effective use of the resources allocated. This situation led the

government to commission a study in collaboration with ANCI, Italy's national association of municipalities and official representative of the funding beneficiaries, which enabled it to identify the actions needed to reduce the structural fragility of the small municipalities in managing their e-government services.

As a consequence, a new services provision vehicle designed to handle particularly the phase prior to public engagement called *Centro servizi territoriali* ('CST' or local area services centre) was introduced for solely those councils in adjacent areas. Some Regions, including Lombardy, opened special funding lines for the development of ICT infrastructure, the purchasing of hardware and software, and ICT aggregation (IReR, 2009).

Although two private ICT firms with minority stakes joined the project, the interest of these partners in growing their user base made the goal unattainable. Thanks to regional funding, a large quantity of equipment was purchased to set up a data centre and build a wireless network to give the councils low-cost connectivity (thanks to the collaboration with AEM SpA, owned by the Cremona Provincial Government), nevertheless, two years later not one municipality had the courage to abandon their information system in favour of Consorzio IT: *Our proposal was not convincing enough, even though it gave the councils highly advantageous financial terms* (CEO, CIT).

CIT then decided to reposition its business when the General Manager, who came from a private TLC company, hired a new Commercial Director. CIT's new commercial director decided to go knocking on the doors of the adjacent councils to meet their officers and councillors in person: *I wanted them to tell me what their most pressing ICT issues were to my face. We started from the bottom up, offering operational help-desk services to the councils that used the wireless network. This enabled us to understand first-hand what their most pressing problems were* (Commercial Director, CIT).

But that was not all: *We then started to document the interventions carried out in detail and soon realized that 80% of the cases were requests for help with operational difficulties that often had nothing to do with connectivity or the performance of the software applications installed at the councils. But above all: Speaking with the respective mayors at a public event often highlighted the need to implement widespread training, an issue that had never come to the fore till now. So we started to organize base courses for the council staff. The next step was to convince them to outsource technical activities to us that if kept in-house offered no particular benefits. After that we began to offer brand new services to complete and integrate the solutions already used* (Commercial Director, CIT).

The ICT suppliers chosen and used by the council were another challenge. *Also in this case we had to work mainly on gaining their confidence. At first they saw us as a threat to their business. We had to convince them that our position was objective and non-partisan. And we succeeded not only because we operate in diverse market segments, but also because it is our policy never to pressure*

customers into anything. Today, in a certain sense, the ICT suppliers see us as allies: our presence helps them because we're their sole spokesperson.... Some of them have even noticed an increase in revenues since they started to work with us (Commercial Director, CIT).

5. The CIT business model

Based on Joha and Janssen's work on SSCs in public administrations (2011, pp. 33-34), we can break down the CIT business model into four underlying dimensions: (1) governance structure; (2) strategic rationale behind the SSC; (3) nature of the services; and (4) customer orientation.

The SSC governance structure dimension addresses the question of how the service delivery is organized; the strategic SSC rationale dimension addresses why the SSC was set up in the first place; the nature of the SSC services dimension provides answers to the type of services actually delivered; and the SSC customer-orientation dimension refers to the SSC users/customers. All four dimensions are mutually interrelated.

5.1. Governance structure

The legal form of CIT is a limited company based in Crema that is wholly owned by SCRIP SpA, a public utility group. CIT is therefore the indirect expression of the multi-utility council partners of the Crema area (i.e., the local area of the Province of Cremona, the main city of which is Crema). The company has share capital of Euro 100,000.

Consorzio.IT and SCRIP are helmed by the same CEO.

The offices and technological resources of Consorzio.IT are housed at the parent company's head office. The company has six employees to manage the following functions:

- Commercial (1)
- 1st level help desk (2)
- 2nd level help desk (2)
- Cartographic services (1).

The assistance activities are performed and governed with the help of a Customer Relationship Management (CRM) system. In particular, a first-level Call Centre provides telephonic or online assistance solutions. In 2012, CIT received 2,400 requests and made 958 on-site visits. Information on the callouts and the different categories of services are automatically fed into a database that keeps an audit trail of the operations and produces detailed information reports for the different councils. The company keeps tabs on the perceived quality of its services through a customer satisfaction questionnaire.

In 2012, CIT fuelled revenues of Euro 1.2 million. Profits generated in the past five financial years were modest: *Given the nature and characteristics of the company, the goal of CIT is not to maximize earnings or to create significant*

self-financing cash flows but simply to achieve a fair balance between two needs: keeping a good managerial balance and minimizing the costs for the client councils (CEO, CIT).

5.2. Strategic rationale

The driving force of the new company during its set-up phase was the chance to tap deeply into the pockets of the central and the Lombardy Region governments. The idea to optimize the core ICT standard services to achieve economies of scale and effectiveness were key arguments in favour of data centre consolidation according to the CST model: *We decided to enter this, for us, new territory with the objective of providing a service of significant interest that created problems for our [municipal] partners because they lacked the necessary competences and resources (CEO, CIT).* On the other hand, the strategic rationale of the private partners was to give preferred access to a captive client base with which to do business.

5.3. Nature of the services

The range of services is standard in terms of target client type but differentiates in terms of variety and individual sourcing choices. The mix of services delivered by CIT includes:

a) Assistance

- online assistance/help desk
- systems assistance
- legislative/regulatory assistance
- software applications assistance

b) ICT Services

- centralization of software applications
- connectivity
- e-mail management
- website design, hosting and maintenance
- software application programmes development
- back-up and disaster recovery
- management of video-surveillance systems
- software asset management.

The current services portfolio has been further developed since 2007 to include online operational help-desk services. Then came the training and upskilling courses issued to the staff of the council clients and various systems assistance activities and website software development. The supply relationship has transformed progressively. The ICT demand of the individual councils has become modular and articulated, creating a market in which several distinct

subjects (including CIT) supply the councils with solutions and a range of technological services.

Moreover, Consorzio.IT assists the partner councils in configuring software programmes and in resolving any online connection problems they have with the regional and ministerial offices. The cost of the help-desk service comprises hardware assistance at the councils’ offices.

5.4. Customer orientation

CIT clients include the 47 councils located in the same local area that are minority shareholders of parent company SCRP. Each council has full autonomy to evaluate and decide how and to what extent they use the company’s services. The multi-sourcing logic is maintained, e.g., the CIT servers run the information systems of four different software developers.

CIT keeps the lines of communication with the councils constantly open, taking a business-like approach to its operations. *We tiptoed into the councils to earn their trust day by day. Today, they always consult us before making important decisions. (Commercial Director, CIT). Our colleagues at the councils treat us as their equals (CIT employee).*

Figure 2 highlights the exemplary challenges and responses offered by CIT in the diverse stages of the public service ICT value chain, i.e., definition of innovation policies, research and identification of the technological solution, acquisition of the technological solution and implementation of the solution and service governance.

Figure 2 – Consorzio.IT Operating model (adapted from: Accenture, 2011)

		Public		Private	
TASK		PARTNER MUNICIPALITY	CONSORZIO.IT	ICT PROVIDER(S)	OPPORTUNITIES & THREATS
Value Chain	POICIES	<ul style="list-style-type: none"> Definition of local policies for online citizen services Identification of ICT sourcing strategies 	<ul style="list-style-type: none"> Use of advisors to define solutions that enhance the operational efficiency of the ICT infrastructure Promotion between the municipalities 		<ul style="list-style-type: none"> Enhancement of the operational efficiency of the ICT services Disparate inter-territorial solutions Need to start from scratch when a new administration is elected
	PROCUREMENT PLAN		<ul style="list-style-type: none"> Definition of the optimal technological architecture tailored to the needs of each PA 		<ul style="list-style-type: none"> High level of adaptability of the solution to the needs of the PA Less resistance to change Lower tendency to reuse technological solutions
		Purchase of the technological solution		<ul style="list-style-type: none"> Selection of the required software and infrastructural components Search for potential outsourcer 	<ul style="list-style-type: none"> Competition among the different outsourcers to win the contracts
	PRODUCTION & PROVISION	Solution implementation; provision and governance of the service		<ul style="list-style-type: none"> Solution implemented directly by Consorzio.it, which integrates the so/ww and infrastructural components Provision of a non-standardized assistance service Coordination with a single supplier. 	<ul style="list-style-type: none"> Solution* implemented under the coordination of C.IT *solution provided 100% by C.IT or external provider, or mixed solution

It is important to note that CIT, at the request of a business partner, performs ‘make-or-buy’ evaluations based on economic-organizational considerations to help them decide whether to “make it in-house” or ‘buy it on the market’ just like any PA, CST or private organization would (see last line of Fig. 1). For example, in addition to its centrally hosted environment, Consorzio.IT owns a virtual infrastructure consisting of around 20 machines located at the data centre of a Cremona public company that operates in the telecommunication services market (AEMCOM SpA).

CIT is the epicentre of a system of relations, both *external*, i.e., from and to the user councils, and *internal*, i.e., from and to sub-contractors. This ecosystem is the habitat of both big players and small local firms. CIT is a kind of hinge that joins the councils’ demand for technological innovation to the potential/capacity of the market players. The use of third parties enables CIT to keep its organizational structure lean and, therefore, to contain fixed costs.

6. Discussion

6.1. Nature of the company

Consorzio.IT is a small-sized enterprise that can claim all three of the publicness criteria of ownership, funding, and control highlighted by Andrews, Boyne, & Walker (2011). According to this conceptualization, organizations can be more or less public on each of the three dimensions. If, as the authors suggest, we treat all three variables as continuous rather than categorical, the primarily public dimension of CIT, especially its ownership, is very clear. Nevertheless, the picture of the other two aspects is hazier. In fact, several factors point to CIT’s hybrid nature (part-private and part-public). On the one side, it is an established main player – on a par with the other providers – in a highly competitive market, it self-finances its operations (from services income) and it pursues the path of ongoing innovation in its offer, thanks to its highly tuned awareness of customer needs, features that are usually associated with the private company logic (*ibidem*, p. i303). On the other, the top management of CIT is the same as that that helms the group parent company. It is hard to believe that this mix of roles, in addition to the physical proximity of parent company and subsidiary, does not influence the choices of Consorzio.IT and the relations it has with the public and private actors in the task environment.

6.2. Evolutionary path

Consorzio.IT is an example of *supra-corporate model*, i.e., a special purpose vehicle to deliver services on behalf of all its partners, which was initially set up as a PPP to provide the small councils with their core information systems. Nevertheless, the fact that the proposed solution is powerful does not imply that it is easy to implement. Small councils are usually risk-adverse and initiatives of such large scope (i.e., full outsourcing) are loaded with unknown factors, not

only technological but above all related to organizational and cultural change. So it is highly probable that the initial proposal to retire the existing information system has been delegitimized, albeit in a creeping way, by the administrative staff of the councils in question to defend their own prerogatives. But it is also likely that the incumbent suppliers felt threatened by the newcomer and did not just remain on the sidelines of these dynamics of resistance.

The negative reaction of the councils shows that the choice of corporate boundaries has implications on both production and transaction costs and other consequences on the actors involved. For example, it is not infrequent to discover that the internal actors have actively opposed the externalization or played a role in its definitive abandonment up to a certain point (Grandori, 1999, pp. 505-507). In other words, once established, an organizational structure fuels the interest in keeping it alive. Such interests (as shown by the CIT case) can translate into reactions of inertia or of maintaining the status quo.

The brand new strategy devised to leap this hurdle was based on the conviction that the basic computerization of the councils was a problem that had been surpassed also by the smallest. Moving both upstream and downstream of each municipality's core information system, CIT built a range of services around the information systems already in place that addresses concrete needs never tackled before. In other words, by adding technical and organizational capabilities to the ICT resources offered to and used by the councils, CIT identified a new market niche and became a point of reference for the local ICT offering.

This move and a nimble organizational structure ensured the take-up of the SS option. The mayors interviewed talked about the relationship of trust forged with CIT. The offering is flexible and, they underline, anyway takes account of the fact that some local councils might already have assigned internal competencies and resources to manage their ICT operations. The effect of continuous technological progress or new needs or new opportunities may in time lead to new and unanticipated uses of ICT, while other practices may become routine among the user councils. This means that the logic of CIT is to anticipate customer needs and to accompany them in their choices rather than merely responding to mature needs.

The chosen business model is conceptually different from the usual consolidation ventures like CSTs, which are driven by the needs of the service providers that, in turn, are interested in giving all their clients the same platform and solutions (e.g., to supply the core information system) or, at the most, a catalogue of standard options. On the other hand, CIT started by listening to the needs of the users and ended by building a shared services offering 'customized for individual customer sets' (Scannell & Bannister, 2012, p. 116). In short, CIT 'retains the individuality of councils' (Tomkinson, 2007, p. 33). This marks a sharp break with the software provider's typically product-oriented approach,

which rarely envisages tailoring services to the needs of different segments or seeks to grow the technological culture of its client.

6.3. *Organizational issues*

From the organizational perspective, CIT's in-depth knowledge of the client is a crucial resource for at least two reasons. On the one side, it is important in competitive terms to pursue growth: it can be used strategically to improve the understanding of the technological demand of the small councils and, therefore, can reinforce CIT's position in the ICT market. On the other, CIT can use its know-how to enrich the service content offering for both existing and potential clients.

Thanks to the general market recognition earned by CIT, it can play a key role in a very important game, that is, in the implementation of the inter-municipal collaborations that the Italian government's recent measures have made obligatory. CIT actively supports the efforts of the councils by leveraging its tertiary nature both with the ICT suppliers and the individual technological options offered: *Getting both clients and suppliers around the same table means we can analyze the pros and cons of the various solutions together and thus lay the foundations for shared choices.* (Commercial Director)

The second important aspect is that the knowledge acquired by CIT has placed it in a position to create client dependency and, therefore, to acquire the ability to 'control' them. From the time the SSO is able to provide customized services, or even to anticipate the needs of the client based on its knowledge and experience, the client will see the other options available in the market as less attractive and less suitable for replacing CIT as their supplier.

Returning to the initial research question: *But what is the real novelty of the SS option?* We could respond by saying that the mainstream literature tends to highlight mainly the exterior aspects of the SSO arrangements, such as range of activity, the different production combinations or styles of management. Nevertheless, it is hard to consider these aspects as unequivocal signals that change has occurred on the front of organizational logics. Not even the empirical case has enabled us to gather clear indications of change in the logic that guides the design of the organizational form, meant as the configuration of right and obligations of action, decision, control and ownership, and the mechanisms of coordination between the actors and the diverse rights holders (Grandori, 1999, p. 294).

Using the conceptualization proposed by Masino (2005, p. 204), the empirical case seems to indicate a 'subtle yet important process of incorporation of the clients within the boundaries of the company' not in legal-formal terms but in more meaningful terms, the management of qualifying elements that connote the client-supplier relationship. Thanks to this knowledge, the SSO moves its influence toward the outside and consolidates itself in the technological

environment on which the council's activities are wholly dependent. Translated, that means it seeks to augment its 'exercisable control' (Masino, 2005).

7. Conclusions and implications

For obvious reasons, the findings of this study are not enough to demonstrate the theory proposed. Nevertheless, we believe it can provide insights on the factors that generated its proposal and the conceptual tools that support it.

In its most general formulation, our theory is that the SSO does not cross the boundaries of the dominant organizational logic that favours design solutions capable of augmenting the level of exercisable control.

We could label Consorzio.IT as a *pocket-sized SSO*, the product of an evolutionary trajectory where nothing can be taken for granted, as attested by the failures of numerous public-owned providers that have ventured into the ICT services market in the past. By measuring up with other competitors and by not forgetting the roots that anchor it to the Lombardy region's small municipalities, this enterprise has succeeded in staking its place in the market and is an apparent case of *virtuous localism*.

However, the future of this public enterprise has yet to be deciphered. The winning business model adopted up to now cannot be replicated across the board should CIT decide to pursue growth-by-expansion strategies, such as extending its market to non-SCRIP member councils in the local area, which is strictly prohibited by the public tender law currently in force in Italy and the recent measures launched in tandem with the government's recent spending review. Although a corporate restructuring project that, let's say, leverages SCRIP SpA's holdings in other local utilities could open new outlet markets to CIT, it is clear that such a move would have repercussions on the strategic prerogatives of the group parent company and, if implemented, would confirm the SSO's role as a 'tool of local governance' (Citroni et al., 2012a, p. 112).

In terms of the *implications for practice*, the results of this study enable us to define some of the lines of intervention of use to the senior management of local governments. In particular, the spin-off of public enterprises that deliver services to the especially small councils according to the SSO model can be efficacious when these:

- create value from technological investments, management systems and managerial resources already realized in the group parent company's other core business segments;
- seek to forge strategic collaborations with other companies and potential competitors in the ICT sector with the aim of completing and integrating the solutions offered by the market;
- give sufficient importance to the technological and managerial innovation processes of the client councils in a logic of evolutionary

awareness and support rather than simply responding to cheap commodity needs;

- structure a highly differentiated content approach to public clients by listening to their needs and tailoring the services offered accordingly;
- define an affordable pricing policy that chimes with the services effectively delivered and not the logic of a captive market;
- consider client loyalty and trust as the overarching objectives to achieve through the quality of the offer.

The paper also has *implications for research*. It extends the horizon of reasons beyond economic self-interest to capture other meaningful aspects of the sourcing options, such as the role of the relevant actors, and their preferences. Organization studies appear particularly useful to highlight first the nature of the technology services and their role in the processes of regulation, i.e., the coordination and control processes, and, second, the critical and active role of the public SSO in the system of multiple local relations.

While the case study focuses exclusively on the Lombardy scenario, the authors believe that certain aspects can apply also to other regions and, in some cases, to broader contexts. It is hoped that future research will be conducted in a wider number of organizational settings, also in a comparative key. For example, other Italian public utilities, both national and local, decided to enter the business of ICT only to abandon them later so an analysis of the criteria that make such diversification strategies sustainable could produce valuable insights. Lastly, to enhance our understanding of public SSOs, it would be useful to explore functional areas other than ICT.

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