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B.LAB HANDOUTS

PUBLIC MANAGEMENT

-ATTENDING STUDENTS-

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Public Management

Comprehensive Guide – Attending Students

Table of Contents

INTRODUCTION – PUBLIC MANAGEMENT AND THE PUBLIC SECTOR 3

GOVERNMENT AND GOVERNANCE 3

DIRECT COLLABORATION 4
INDIRECT COLLABORATION 5

INTERNATIONAL GOVERNANCE 5

INTERNATIONAL POLICY REGIMES AND THEIR TASKS 5
INTERNATIONAL ORGANIZATIONS 6

NON-GOVERNMENTAL ORGANIZATIONS (NGOS) 6

TYPES OF NGOS AND THEIR CHALLENGES 6

ADVOCACY AND CAMPAIGNING 7

BUSINESS-GOVERNMENT RELATIONS 8

GOVERNMENT AS A PARTNER – PRIVATE-PUBLIC PARTNERSHIPS 8

TYPES OF PPPS 9
RISK MANAGEMENT AND FINANCING OF PPPS 9

CORPORATE CITIZENSHIP AND CSR 10

THE FOUR APPROACHES 10
MEANS OF IMPLEMENTATION 11

PUBLIC AFFAIRS 12

BACH AND ALLEN'S FRAMEWORK 12

FEATURES OF PUBLIC INSTITUTIONS AND MANAGEMENT 13

PUBLIC MANAGEMENT REFORMS 14

REDEFINITION OF THE BOUNDARIES OF GOVERNMENT 15
RESHAPING THE MACRO STRUCTURE 15
REDEFINING THE MICRO STRUCTURE 16
POST-NPM REASSESSMENT 16

MEASURING PERFORMANCE IN THE PUBLIC SECTOR (+ READING) 17

MEASUREMENT, DATA AND MANAGEMENT 17
PERFORMANCE MEASUREMENT 17
KEY PERFORMANCE INDICATORS 18

KEY PERFORMANCE INDICATORS 18

KPI BASICS 18
KPI CHARACTERISTICS 18
EXAMPLE: OECD'S GOVERNMENT AT A GLANCE 2025 19

COST-BENEFIT ANALYSIS 19

PERFORMANCE MEASUREMENTS AND POLICY EVALUATION 19
CBA BASICS 20
BENEFITS AND ECONOMIC CBA 21

PERFORMANCE-BASED FUNDING 21

BASICS OF PBF 21
TYPES OF PBF 22
FURTHER EXAMPLES OF PBF 23

TRENDS IN PUBLIC MANAGEMENT 23

TIMELINE OF PUBLIC SERVICE REFORMS 23
NEW TRENDS AND EXAMPLES 24
CONCLUSIONS 25

Disclaimer: this course reserve *does not contain summaries of the year-specific readings*, please look into them as they are an integral part of the syllabus *and very specific questions about them will come up in the exam*. This course also *pairs amazingly* with the **Public Finance** course, of which takes a lot of inspiration from and for which complements the economics with managerial topics!

Introduction – Public Management and the Public Sector

Why should we care about public management? The core motive is that governments and regulators are **a key part of running a business** as they are some of the most important stakeholders. As Hughes puts it: "*The public sector is engaged in providing services (and in some cases goods) whose scope and variety are determined not by the direct wishes of the consumers, but by the decision of government bodies, that is, in a democracy, by the representatives of the citizens*". Essentially, the public sector's job is **enabling an authoritative public choice about collective political will**. It is the government's job to turn a society's heterogeneous preferences into a cohesive and proactive political community.

There is significant overlap between the roles of administration or management and politics (look at the US right now). However, government and its bureaucracy have very different roles and instruments than private corporations:

- A government has to provide **infrastructure of all kinds** to facilitate economic and political activity. Primarily, laws, rights and the enforcement of those provide the institutional basis upon which a society can be ran.
- A government provides **public goods** (both in the academic and the common sense) due to the phenomenon of underprovision through market activities. The same happens with **provision of minimal goods and services** through welfare or poverty relief.
- A government, through its legal and political system, **operates as a deal broker and settler of controversies**.
- A government has to **guard markets from failures** like cartels or monopolies.
- A government has to **protect future generations' interests** by regulating resource and environment exploitation.
- A government takes care of the **business cycle and stabilizes the economy** to ensure constant prices and economic growth.

Governments, to do their job, have access to a variety of tools (in democratic societies). They can **provide goods through provisions**, initiate **subsidy programs or extract taxes**, produce and release on a market goods and services, and **act through regulation** to maintain markets orderly.

Government and Governance

Government refers to the Weberian ideal of **monopoly of violence**: it's a coercive and centralized way of ensuring outcome via power projection. All nation-states have a government that makes, applies and enforces laws unilaterally. Governance is **non-coercive in nature** and can be utilized by private and public actors alike. According to Rhodes, "*governance refers to a non-coercive way of governing where private actors (for profit and nonprofit) participate in the formulation and implementation of public policy*".

It rests on the "**Multiple Stakeholders**" framework, where collective problems cannot be easily fixed with top-down solutions and require the broader civil society's collaboration **through formal and informal laws/rules**.

Naturally, this push towards governance must be backed by real results: companies must re-internalize negative externalities and the state must remain vigilant to oversee the underlying economic activity. The state must be run democratically as well, and a strong and proactive civil society has to exist beyond the private/public dichotomy.

The core organizations of the civil society beyond the state and purely private corporations are:

- Unions: labor organizations to represent workers' interests and allow for collective bargaining in the job market. They are democratic and elected through memberships.
- Private Foundations: charities that represent one individual or philanthropic organization. They create a positive legacy for its founders and are managed by a **board of trustees** to manage assets and make grants.
- Think-Tanks: research and policy institutes that advocate for change in specific areas. They can represent multiple interests and ideologies and are often funded by charities or corporations.
- Industry Associations: They represent the collective wishes of specific groups of businesses, allow for information sharing, enforce codes of conduct and other obligations, and mediate differences through arbitration before civil courts.
- Social Movements: loose collections of people seeking to advance a cause for the common good up to implementing favorable state policies and changing social views on specific issues.

In short, civil society can be defined as the "*uncoerced associational life distinct from the family, the institutions of the state, and the economy besides associational life*" (Edwards, 2009).

According to **Mayntz**, there are multiple ways of conducting governance.

Direct Collaboration

In this category we find:

- **Tripartite Agreements**, which are usually conducted on topics of macro-relevance where two parties are mediated by the state's action: a union and an employer see the state mediate both interests and enshrine in law the (*necessarily shared*) outcome.
- **Public-Private Partnerships and Mixed Networks** are usually founded in strategic sectors to allow the state to call in the help of private contractors and partners to complete time or resource sensitive projects.

Indirect Collaboration

In this category we find:

- **Self-Regulation**, which sees private individuals voluntarily abide by quasi-regulatory standards or create regulations themselves by *setting standards, behaviors and practices*. Examples of this are the ISO and Rainforest Alliance standards for production and labeling.
- **Private Governments**, which are organized by small groups to enforce norms and standards catering to public good interests. Advertising associations are prime examples of this and they act as quasi-legislative bodies able to *enforce non-coercive sanctions like outright boycotts and name-and-shame campaigns*. However, there is little evidence of its superiority over outright regulation, especially in regulating monopolistic companies like fast-food (and its children marketing campaigns).

International Governance

International governance was born out of **individualistic self-interest** to avoid non-necessary conflict: it was better to approve a Pareto-inferior but feasible demilitarization deal, than to start a costly and potentially dangerous arms race. International organizations were born to carry out these objectives through multilateral agreement, but they **do not automatically entail the presence of an international policy regime**, or the presence of formal/informal laws and customs that actors respect and upon which they base their expectations of international relations. The OECD has no specific laws for its members; the Geneva Conventions hasn't (directly) created any organization to uphold it.

A strong regime can create an international organization to mandate reform and mediate conflict (GATT led to the formation of the WTO) and the opposite can happen as well (the UNEP led the way to pass the Vienna Convention on the Protection of the Ozone Layer).

International Policy Regimes and Their Tasks

IPRs conduct the following tasks:

- **Regulations**, or the framing and promulgation of rules to allow participants to avoid conflict or loss (i.e., the WTOs Anti-Dumping Agreement).
- **Procedures**, or the administration mechanisms to allow actors to arrive at collective choices on existing or projected regulations (i.e., blacklisting chemicals or setting quotas).
- **Programs** involving the pooling of resources to collectively carry out projects that would be too costly for individual participants but that affect all of the IRP's signatories (i.e., CERN and its physics research).
- **Generation** of new social practices and support constituencies involved in shaping the discourse around a specific issue (i.e., the shift of discourse from global warming to climate change).

International Organizations

They operate to allow for either bilateral or multilateral collaboration between states or other smaller actors. In the case of states, we talk of **International Governmental Organizations** or IGOs, and they can be differentiated geographically (the UN is global, the EU is regional), or by sector (the ILO focuses on labor, DG REGIO focuses on European Urban/Regional Development).

The EU is an **international legal order** composed of 27 member states that delegate sovereignty to supranational institutions (from competition policy to monetary policy) and vote for legislation in an elected parliament. The UN is more global and functions as a **system of organizations** split in agencies (like the WHO) and funds (like UNICEF) that may or may not contain all member states (the IAEA spans only 137 UN member states). The OECD has no legal leeway on its members but **works closely with policymakers to establish evidence-based international standards** and works as a hub for pooled data and best practices in public policy.

Non-Governmental Organizations (NGOs)

NGOs are stable organizations with **stated goals, structure and selective criteria to become members** that pursue a public purpose aimed at improving public conditions. They are fundamentally **private entities with voluntary-based memberships** and have no direct political aspiration (Greenpeace is not a Green Party), nor direct coercive power. Most importantly, they **cannot redistribute profits among a group of shareholders** and have to reinvest it in their activities.

They can go from local grassroots organizations to massive globe-spanning institutions like Oxfam, CARE and Amnesty International. They are not necessarily “progressive”, but spur from informal social movements advancing various causes (i.e., Women Suffrage, Gun Ownership, Pro-Life/Choice, etc...), or that provide (or used to provide) services in times of need, like food and medical assistance in war. Many NGOs **rely on public funding and charity fundraising for their functioning**.

Types of NGOs and Their Challenges

NGOs typically focus on one of the following activities:

- **Advocacy** towards the state, citizens or business for the benefit of individuals or broader groups, largely fundraised through donations (Amnesty International).
- **Direct Production of goods** generally directed towards distressed populations not serviced by the private sector (Red Cross or CARE).

Nowadays, NGOs don’t neglect one of the two functions but carry out both at differing efficiency/intensity within separate divisions. NGOs have to manage their manpower just like common corporations, but have unique challenges:

- **Salaried Workers** might be very motivated but are paid less than industry average due to the nature of the business.
- **Volunteers**, both experienced and just motivated, can be employed for both long and short periods and for both core and peripheral roles.

In both cases, the focus of management should be on **voluntary integration and participation** to the NGO's activities.

Outwardly, the NGO has to act like a corporation to *sell products or provide services* to a target audience and then *uplift and pursue the core mission objective*, often interacting with an array of fundraisers, private and public actors (this is known as the **double market system of multiple accountabilities**). NGOs have to contend with fundraising and its relationship with **its unpredictability and risk of mission compromise**. Primarily, an NGO has to balance awareness and fidelization of its core market and define effective *targets*. *Benefits and means of maintaining membership or clientele*.

Finally, NGOs tend to have **complex relationships with private for-profits**, ranging from directly confronting them (i.e., CorpWatch) to collaborating with them (i.e., WWF with P&G).

Advocacy and Campaigning

The core objective of NGOs and public organizations is to shape individuals' behavior towards a productive social outcome. They can take multiple forms, but we primarily distinguish between:

- **Public Will Campaigns** are made to shift the public eye towards the issue at hand and advocate for specific changes or reforms. They rarely focus on the individuals pushing negative conduct but rather **try to galvanize the broader civil society to generate a contextual change** that will then bring the required reforms (*public engagement campaigning*). An example is the *International Campaign to Ban Landmines*, which led to international policy frameworks banning/restricting the use of anti-personnel mines.
- **Individual Change Campaigns** are made through a social marketing approach aimed at having a "customer" act in a socially productive way. For instance, *anti-smoking campaigns* frame the act of smoking as a primarily individualistic one, but also target the broader social context to further incentivize change:
    - In the case of tobacco, the state can impose higher levies and laws **banning smoking in public places leading to denormalization of the act**, individual change campaigns fit in the latter approach. This can be done either *buying media space* (to reach the widest possible audience and generate shock/disgust – i.e., Tips from Smokers, CDC) or via *unpaid earned media* (that gives credibility to the campaign – i.e., Press Coverage, scientific literature).
    - Individual Change Campaigns have to be aimed *at the widest audience possible*. In the case of tobacco, **targeting all adults also helps targeting**

early smoking teenagers, rather than segmenting the campaign towards specific types of smokers.
  - Messages are framed to create the widest impact possible. Disgust, fear of death, loss of independence and externalization of damage onto the vulnerable are all viable options. Humor is also a good avenue, even in tobacco campaigns.

Business-Government Relations

Businesses and government constantly interact for the benefit of both. The core interactions have **government action and corporate reaction**. If the government operates as regulator, corporations will invest in policy analysis, conduct lobbying or self-regulate to avoid further restrictions. However, the **government can act as a deal broker, partner or customer**, and it provides public goods that are crucial to the functioning of corporations (businesses need law enforcement and streets, regardless of what Rothbard envisions).

The government is also the primary guarantor of private property, both physical and intangible. Naturally, not all intangible assets can be legally guaranteed, as **not all of them are directly registered or valuable**: the fact that P&G refuses to hire beyond junior roles to have in-house trained management only is just a quirk any company could adopt with no legal pushback. Trust and goodwill are also very evanescent and can be "unlocked" only through overpaying to acquire a company beyond its market value.

For our intents and purposes, we focus primarily on **corporate liability management**, which includes the *liability of foreignness*, or the inherent risk of **operating in a different legal/economic system**, which companies have to constantly deal with. By this, the ability to engage as a "corporate citizen" of a specific country is contingent on varying effects, which indirectly impact intangible assets:

- **National Effects** depend on the *regulatory and cognitive* aspects of transnational transactions (formal laws are as important as factors including corruption, role of environmental protection or broader social expectations).
- **Industry Effects** dictate the degree of risk associated with company operations (an oil company always has to stave off the risk of nationalization) and the positive/negative externalities exerted on the local community.
- **Company Effects** are the effects such activities can have on the firm, primarily measured in *how much and how valuable the experience of dealing with an international system was* (i.e., how much experienced manpower was acquired).

Government as a Partner – Private-Public Partnerships

According to Kettl, *boundary-based solutions are out of sync with 21st century problems*, and the solution is to **have private and public sector share costs, benefits and risks**.

More specifically, a PPP is *an arrangement in which a government and a private corporation jointly undertake a traditionally public activity*: in general, the goal is to build very large and expensive infrastructure or to embark on a massive requalification project. They now touch many fields, from energy to law enforcement and have various benefits:

- They allow governments to **partially skirt budget constraints** through private funding.
- They allow the state to get private-sector know-how in the management of large infrastructure.
- They are at the forefront of the transition of the state's role **from direct manager to controller of economic activity**.

Types of PPPs

PPPs can vary a lot in typology, especially on the grounds of financing, development and final ownership/usufruct of the created infrastructure. The main types to bear in mind are:

- **BOTs and BOOTs** which have the private sector *build operate (potentially own) and then transfer* to the public sector the project built. The core example is the **toll-road system** usually financed and operated by a private company, with the government as the final owner or user of the actual road. In the case of BOOTs, the private corporation remains the legal owner of the project.
- **BOOs** are the same as BOOTs, but the final project remains in the hands of the private corporation in perpetuity, and the public sector provisions for concessions or raw materials. **Water-Treatment Facilities** work like this, with the government buying back the filtered water to be given back to consumers.
- **Joint Ventures** allow for both parties to own/finance/operate the final product and are **common among urban regeneration schemes**.
- **Leasing** where the public sector is the lessee, work as normal operating or financial leases, with the lessor having the choice of giving the state a call option on the underlying asset once the leasing period is over. **Public transportation is generally part of operating leases** whilst more expensive/rarer machinery like MRIs **is better leased under a financial arrangement with call option at the end**.

Risk Management and Financing of PPPs

PPPs of all kinds are, however, a *fragile web of interests* and are therefore subject to a **variety of risks** spanning from force majeure to political risk and inflation. The financing and viability of a PPP is therefore contingent on the underlying socio-economic and political context it's being pursued in.

Indeed, although PPPs may **relieve public resources for other projects and limit reliance on taxation**, which is unpopular, they bear considerable risk:

- Upfront savings are obtained **at the expense of lower fee collection** from users, which is less convenient for the private part.
- The **intertemporal budget constraint** under a PPP and under public provision **can indeed be the same for both** and a PPP can have no significant impact on public budgets.
- Debt raised through a PPP **is risker than government-denominated debt** and that makes borrowing more expensive for the government.

PPPs in general involve long-term commitment from both parties and there is no bulletproof guarantee of that holding. **Corruption appears to be a significant factor** in the feasibility of a PPP. If some form of *malfeasance from a public officer is foreseen* and it is part of an **illegal rent-seeking scheme** beyond simple profit search and competitive advantage, PPPs might falter or become instruments to enrich the corrupt officials.

Moreover, the presence of international players and their experience is contingent on them being able to either *engage in the corruption or successfully stave it off*: strong institutions are **correlated with less opportunistic behavior**: the more veto-points are in place to avoid sudden change in policy objectives, the lower the associated probability on average of a PPP getting cancelled (Bertelli, Mele, Whitford).

Similar conclusions can be found in the analysis of PPP performance: **autocratic governments tend to favor PPPs the more corrupt they are**, whilst democracies don't have a similar trend (Bertelli, Mele, Woodhouse).

Corporate Citizenship and CSR

The role of companies has been under scrutiny since the 1950s, and two main philosophies emerged, alongside the publications of books and papers on the topic. The final result was the building of the **corporate citizenship concept**, based on the following questions:

- What are the *types of corporate citizenship*?
- What is the difference between, say, *pro-bono and volunteerism* and why should a company invest in it?
- Through which channels does a company invest in philanthropism?
- Can we assign pros and cons to measures like ESG and other investment evaluation metrics?

The Four Approaches

Companies can follow one of two main philosophies regarding corporate citizenship. They can forgo it entirely and focus on the goal of **shareholders' utility maximization** (*Shareholder Capitalism – Milton* ***Fried****man*) or focus on a broader array of **stakeholders** whose needs must be taken care of (*Stakeholder Capitalism – Klaus Schwab*). By this, a company can hold four different positions on its citizenship:

- It cannot **care at all** (Minimalistic Approach) and apply **Fried**man's rule ad litteram to engage in *open and free competition with no deception or fraud*.
- It can act **philanthropically** and engage in nonreciprocal efforts to provide goods for unmet needs (Philanthropic Approach). The reason this is done is because a company *finds it fiscally useful* to divert funds to specific causes, or because it *increases visibility like in marketing* (Leisinger and Smith).
- Locke argues that companies **shouldn't just act out in their rent-seeking interests** but actively **pursue social utility maximization** (Social Activist Approach). Indeed, their status as price makers and their wealth puts them in a moral obligation to do good by society at large.
- In alternative, a company might just see expanding their citizenship programs as a **strategic investment into intangible assets** just like R&D or marketing (Instrumental Approach). By this, companies build reputation and advantage via a **reinforcing cycle of investment in Corporate Citizenship** (Gardberg and Fombrun).

Means of Implementation

Should a company go down a non-minimalistic path, there are many ways it can implement its goals and projects engaging stakeholders directly.

They can undertake **pro-bono work**, which is providing the company's specialty goods/services for free or at a greatly reduced rate. Many professionals including medics and lawyers provide these types of services, alongside very large companies like Deloitte and Accenture. Alternatively, companies can **pay workers to engage in volunteering** in a nonprofit of their choosing (*Corporate Volunteerism*): generally, the volunteering times are very limited (i.e., a day a month) and this directly engages the employees into the company's citizenship scheme.

Pro-bono and volunteerism also fit into a broader HR strategy of **worker retention through work-life balance**: younger workers value volunteering and altruistic causes a lot and place a lot of value on *their company giving back to the community it extracts rents from*. Moreover, engaging in socially uplifting schemes allows workers to avoid **ethical burnout** and hence turnover.

Another way companies can act in their citizenship interests is through **philanthropic contributions and collaborations with entities pushing socially beneficial causes**. For instance, a company might donate in charity cash or goods towards a specific cause (i.e., Microsoft used to donate computers to deprived school administrations) or collaborate with an NGO/Public Fund to bring aid to areas stricken by natural disasters (i.e., UPS and UNICEF). Having self-regulation schemes and private governments like in **packaging labels** can also advance corporate citizenship through means like fair-trade or criminal activity fighting/repurposing (i.e., Rainforest Alliance or Libera).

The final major way to act in accordance with corporate citizenship goals is through **ESG Ratings**:

- **E – Environmental**, or how environmentally consciously a company acts with respect to carbon neutrality, renewable energy use and waste reduction.
- **S – Social**, or, for instance, how sustainably a company treats its workforce and the community around it, or how it treats more vulnerable employees like marginalized or elderly ones.
- **G – Governance**, or a complex evaluator of a broad set of adherences to human rights protection standards, anti-discrimination practices and *anti-corruption measures* that also serve to **limit the company's liabilities** should unexpected unlawful behavior happen in its ranks or unexpected whistleblowing.

ESG is controversial for its scoring scheme, which works *intra-sectorally* and *prioritizes disclosure over the company's mission* leads to weird situations where Philip Morris (a tobacco company) has an ESG score of 80+, Lockheed Martin (a weapons manufacturer) has a score of 50+ and Duolingo (an app whose streak mechanic keeps you hostage of the Korean language) has an ESG score of around 20.

Public Affairs

Business, according to Bach and Allen is structured both **within and outside of markets** and both environments interact with each other, leading the need for *nonmarket strategies* that involve to some extent the practice of **lobbying**. Companies have to keep relationship open with many and internationally varied nonmarket environments characterized by conflicting values in both society and politics. Nonprofits and other public organizations have to engage with it as well to some extent. **Globalization has offered new avenues for trade and lobbying** and has established new regulatory agencies as well, leading to a more complex economic-political environment.

So, what is **lobbying and public affairs at large**? It is the "*legitimate exercise of an individual's or a corporation's right to petition the government for the passage or defeat of legislation, or of other proposed government actions*" and can have multiple names referring to lobbying, public affairs or regional political advisory. In practice, it combines **government relations, media communications, issue management, CSR and information dissemination** to further an organization's cause. The final goal is to **increase a corporation's legitimacy, political connections and policy influence**.

Bach and Allen's Framework

Bach and Allen's framework systematize the act of lobbying by splitting it into **six subcategories**:

- **Issue at hand**, on which a company has to take a position which could significantly impact the company's value.
- **Actors at play** which represent the interested parties in a given issue, with their ideological and economic stakes.
- **Interests at play** which represent the motivating reasons of the actors and of which the criticality must be evaluated.

- **Arena of confrontation**, or the spaces (both tangible and intangible) where lobbyists meet to discuss the issue at hand.
- **Information in the Arena**, or the data that is inserted in the conversation, functioning as a sort of *currency in the nonmarket environment*.
- **Assets needed to prevail**, including reputation, trustworthiness and prior influence such as the ability of exert coercive power or leverage a large network or coalition of associates.

In general, lobbying can also be **direct** (through testimonies, hearings, private meetings or by letting specific information circulate through think-tanks) or **indirect** (through allyship, organizing coalitions and constituencies, industry associations reliance or by working with the broader media space).

Features of Public Institutions and Management

Public and private institutions are deeply different from each other. The lack of a profit motive in the former is responsible for the majority of the observed divergences between the two. Assuming that we are discussing *state-owned public institutions* and not nonprofits that act as distributors of public goods, the following characteristics influence the impacts of the structure on management.

Firstly: **public institutions are not owned by shareholders but by the broader citizenry** and *do not operate to turn a profit to then redistribute it to the owners*. The incentives' structure is completely different, and it deviates significantly from the profit maximization one can find in perfect or monopolistic competition. **Goals tend to be contradictory**, usually balancing efficiency, equity, legality and political responsiveness, and they have to be **justified outside their bare outcomes**, usually through a longer legitimization process.

Although treated as a single homogeneous sector, **public institutions perform very diverse functions** across sectors. This means that:

- The **diverse nature of the activities requires a diverse team of experts**.
- The conventional management models break down, and **different needs have to be catered towards through model variety**.
- **Evaluation is very dependent on context**.

Since efficiency is not the key metric and no goods or services provided are really excludable, **public goods are provided without direct market pricing**, and their production and distribution are covered for by public funding. By this, deficits and surpluses can hide good management practices in hard times or mask incompetence in a time of lax spending. Performance cannot, therefore, be evaluated on a profit basis, and **measuring public value becomes rather difficult**. Even in cases where there is a *very low price*, there is the generation of enormous excess demand pressuring capacity. Generally speaking, co-payments and awareness campaigns can ameliorate the excess demand situation, however the greatest indicator of fiscal solvency and income will be

political support to the institution's cause, with secondary importance given to management or financial savviness.

Price-setting limitations make public organizations **dependent on public and incremental funding**, which is subject to political or administrative mandates. Profit maximization therefore is forgone almost entirely and replaced by **compliance or stewardship**.

The stakeholders of a public institutions are very numerous and this **makes using *Fried*man's minimalistic approach invalid**: elected officials, regulatory bodies and the broader citizenry have to be considered by management, with *transparency being both a legal and moral obligation*. Trust in the institution must be **maintained via continued integrity** and consistency of service quality across various echelons of society. Procurement rules are competitive and placed under strict public scrutiny.

Politics is a major concern, as **managers are directly under the mandate of elected officials**, requiring them to engage in constant negotiations and communication. The priorities are often shifty or inconsistent and **are subject to policy change or public debate or outrage**.

Expectations **strongly influence public support** especially when reforms or programs are announced. By this, *announcements are much more important than realizations* when funding has to be approved, and with slowly appearing results **dissatisfaction festers**. Moreover, opposition can grow to weaken or delay funding to the institution, creating a real **volatile consensus risk**. Indeed, with the entire citizenry and correlated aggregates (i.e., interest groups) being stakeholders in themselves, **consensus building and position mediation are key**. Urban planning, for instance, requires constant consultations and hearings to secure funding and operational viability.

Finally, **public managers have the role of long-term stewards of the institutions they represent** they must think in *intergenerational terms and preserve their institution's capacity for years or decades*, far beyond a single political mandate or election cycle. By this, reform tends to be gradual and bound by sociopolitical consensus.

Value provided is the ultimate goal and public managers must ensure its provision under low flexibility and shifting priorities.

Public Management Reforms

Traditional public administration is based in the **bureaucratic Weberian paradigm**, where hierarchy and monopoly on the use of force are paramount, but rather limited by rigidity and poor responsiveness on average. The fusion of it with the public governance frameworks of nonprofits or private companies is responsible for its overhaul in the **New Public Management framework**.

Such framework refers to the market-oriented public sector reforms of the 80s and 90s in the UK and other anglosphere countries: after the Thatcher Years and the Oil Crisis, there was the *taxpayer revolution* and massive popular demand for more efficient government.

Redefinition of the Boundaries of Government

A key aspect of the NPM framework is the **redefinition and downsizing of the government functions and boundaries**. Advocates of NPM believe that the government should just not do and delegate specific functions. Across the OECD this redefinition followed rather predictable steps:

- Shift from **provision to regulation or contracting**.
- **Privatization**, or **marketization** of public enterprises, with a bias for *steering* and not *doing*.
- **Civil service downsizing** through hiring freezes, early retirements and managerial autonomy.

In Britain, during the Thatcher and Blair years there was indeed a strong movement towards **privatization**, **outsourcing of public and local services**, and a steep **downsize of the civil service employment** with the declared role of introduce competition in the government-managed sectors and reduce state size.

Italy and Southern Europe had to implement similar measures to ensure EU convergence or to restore market confidence during the Sovereign Debt Crisis.

Reshaping the Macro Structure

Meanwhile, there was the consistent push to **reshape the competencies of the central government**, noteworthily shrinking it in favor of *devolution and federalization*. The objective is twofold:

- Giving the local managers more freedom to act and reducing the bureaucratic burden on them.
- Create a local environment of accountability given the *fiscal federalization* of the state budget.

In the UK, Tony Blair in the 1990s began a devolution process to give more autonomy to the national minorities within the UK, with an emphasis on **local accountability and regional differentiation**. This also translated to the localization of essential services like NHS and public schools, with the explicit expectation that **managers would start acting more entrepreneurially**.

Italy did the same in the 1990s and 2000s with the reform of Title V of the Constitution and the transition from Local Health Unions to Local Health Firms to grant more financial autonomy to healthcare system districts.

Redefining the Microstructure

In **Traditional Public Administration** (TPA), public officials were seen primarily as *administrators* and *executors* of legal mandates decided by the governing bodies, with emphasis on **compliance and procedure**. NPM shifts the paradigm and makes public officials **managers delegated by authorities to pursue results** and **create value for citizens**.

Moreover, the incentive structure is directly lifted from the private sector, with **the creation of a competitive environment** between private and public providers, with the state acting as a *steering body* that doesn't directly provide services:

- Public services were opened to **competitive bidding** to drive down costs, and private companies became either **contractors or sellers to public institutions**.
- Within the public sector there was also the establishment of **quasi-markets** where funding follows outcome and providers compete for funding and users.

Additionally, to this, **financial management was overhauled** with the transition from cash-based to accrual-based accounting to *track the results associated with spending* beyond the mere legality of the spending itself. The final goal is to make **public institutions more transparent, comparable and accountable**, introducing cost-performance metrics and allowing for multi-year planning.

NPM has its critics, which focus on the shortcomings of a *steering-only model*:

- **Higher transaction and monitoring cost** to avoid the rise of perverse incentive structures.
- **Loss of public control** in long-term planning and surveillance of the public institutions.
- **Inequality and ethical concerns** due to the profit-maximizing practices within a public provision mechanism.
- **Fragmentation** leading to slower and costlier coordination (*see fiscal federalization*).

Post-NPM Reassessment

Many governments started shifting away from intensive marketization at the turn of the XXI century and started moving towards **collaborative governance and partnerships** with private entities, emphasizing **cooperation and network management** via PPPs and long-term ventures.

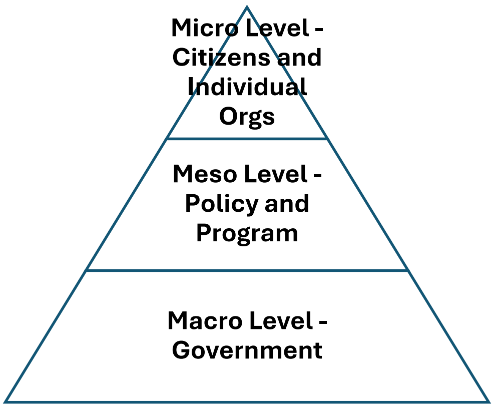
The relationship tends to be more fluid and focused on the **collaboration and communication between managers and politicians**, and although there was a vested interest in the past to **de-politicize** fundamentally political mandates, this has since been either discarded or remodeled. The emphasis is all on **direct accountability for public managers towards the stakeholders** nowadays.

Measuring Performance in the Public Sector (+ Reading)

Measurement, Data and Management

With the rise of managerialism in the 1980s, performance measurements became paramount to:

- **Provide citizens with accountable and transparent institutions**.
- **Force these institutions to make improvements in light of fiscal constraints**.



The UK's Thatcherite "Next Step" agencies introduced annual reports and targets for public institutions. In 1997 the OECD released "*In search for results: performance management practices*". However, **measurements are not substitutes for management**: NPM utilizes *data to make informed decisions*, but data alone cannot be sufficient to improve performance.

The final goal is the **achievement of sustainable long-term goals** at differing levels by maximizing the quality of both **actions and achievements**.

Performance Measurement

Normally the most meaningful measurement of performance comes from the **mission and goals established for a particular program itself**: the objectives should me measurable and achievable within constrained time periods. Consider the **Department of Health and Human Services** and its six strategic goals:

- **Reduce the major threats to health and productivity for Americans**.
- **Improve the socioeconomic wellbeing of individuals and communities**.
- **Improve access to healthcare and its integrity**.
- **Improve the individual quality of healthcare**.
- **Improve the Nation's public health capabilities**.
- **Strengthen the Nation's health science research and productivity**.

For each strategic goals, there are subgoals with very specific tasks and objectives must be *Specific, Measurable, Ambitious, Realistic and Time-bound* (SMART Framework). DHHS utilizes a series of measures of program performance to allow for a deeper understanding of goal progressions.

To do this, DHHS and other organizations or institutions utilize **logic production models** as visual representations of a program's I/O, outcomes and impact and they show the core logic by which activities are supposed to create targeted outcomes. The model must consider **long- and short-term implications**, and it *mustn't confuse outputs with outcomes*:

- Outputs are **measurable immediate actions taken after treatment/implementation** (i.e., in a police training program, an output would be less lawsuits levied at the police department for unlawful arrests or handling).
- Outcomes are the **long-term results the program is supposed to deliver** (i.e., in the police training program, that would be achieving higher public trust towards the police).

Key Performance Indicators

There is no one-size-fits-all solution to assessing which KPIs are most warranted for the evaluation of a public program. In general, one must focus on the following:

- **Resource Measures** for inputs.
- **Output Measures** for quantity of services.
- **Productivity and Efficiency** or any ratio of the first two.
- **Effectiveness** measured via service quality and satisfaction measures.
- **Cost effectiveness** based on a cost-benefit analysis (PDV, Marginal Value of Public Funds, etc…).
- **Equity** based on metrics like access to the service.

Key Performance Indicators

KPI Basics

Performance indicators are defined **operationally** in both measurement and data collection: they must be appropriate and meet the tests of sound measurement principles. They can be of different statistical formats to provide differing types of information:

- Raw numbers, which **convey absolutes**.
- Percentages and ratios, which **convey relative info**.
- Indexes like the CPI (*which is not inflation, is corruption.*_.) or City Scores.

KPI Characteristics

A KPI must be **valid and reliable**. Validity is measured as the *appropriateness* (with acknowledgement of systemic bias), or the extent to which a KPI relates the performance dimension of interest. Reliability establishes the *objectivity, precision and dependability of the KPI*.

KPIs ought to be **balanced and comprehensive indicators**, incorporating all the performance types and dimensions. Tunnel vision in just observing the outcomes or the operational efficiency naturally biases the overall performance assessment.

KPI sets must be **clear regarding the direction of movement**, defining what counts as *good and bad*. That is not always so clear or necessarily good (*and that's why we learn optimization bruh*): in case of extreme lack of direction, discard the KPI.

KPIs are to be **timely and actionable**, with a common mistake of them becoming too far-fetched or too long-termist. This means that an indicator *must be reasonably influenced by managers in the project's timeframe* and not be collectible 50 years in the future.

In case a goal is displaced, **KPIs should still be resistant to that**. It's normal to adjust discretionary objectives, but measurements should be useful across the board, and goal displacement *more often than not arises because performance measures are unbalanced*: choose good KPIs and then claim the results are amazing.

As a last-but-not-least point, KPIs must be **cost sensitive and easy to collect process** as their use is *a purposeful investment that must provide some ROI*.

Example: OECD's Government at a Glance 2025

This program was created in 2008 and updated twice-yearly since 2009. It is rooted in the **concept of Performance in Public Governance**:

- The OECD defines performance as the capacity to use resources effectively to improve citizens' wellbeing.
- Includes transparency, fairness and public perception and integrates economic, administrative and social dimensions.

It is structured along the usual policy logic production model (inputs through outcomes) and covers the areas of public employment and HR management; digital government; open government; regulatory policy; integrity and trust; service delivery and well-being.

This framework actively **promotes transparency and accountability,** peer learning, standardization and **actively turns performance measurement into an international learning tool** for public institutions. At the same time, it's a macro-side toolbox that *has to be adapted to specific contexts* and must be used consciously to avoid oversimplifications and low comparability of results. Moreover, not all OECD countries report data with extreme rigor, thus data gaps are rather frequent.

Cost-Benefit Analysis

Performance Measurements and Policy Evaluation

Performance evaluation and policy evaluation are neighboring fields, with the former being a **monitoring and management tool** and the latter being a simpler **policy evaluation and analytical tool**. They mainly differ in main objective, focus and output:

Performance Measurement	Policy Evaluation
Is implementation and progress on track?	Did the policy cause the intended results?
Monthly Dashboards.	Evaluation reports with causal analysis.
What is actually happening?	Why is it happening and what can we learn?

If we were to enact an air quality improvement policy, we would measure performance via indicators relevant during **the ongoing process**, while the policy evaluation would be carried out **ex-ante** and **ex-post**, especially enacting a comprehensive **cost-benefits analysis**.

CBA Basics

CBA is an *evaluation tool* that provides support for informed judgement and decision-making: it must measure and **valuate costs and benefits of a given action** and **compare it with immediate peers**. Both costs and benefits are measured in monetary terms (*including human lives*) and it assesses **both feasibility and social desirability** of a given investment. In the EU, projects above €50mn are automatically parsed through a CBA for the Cohesion Funds.

CBA can be both **financial and economic**: the former assesses viability and sustainability, and the second assesses desirability (both social and non-market). The financial CBA is carried out just like corporate investments through a **Discounted Cash Flow** (DCF) methodology: cash flows are considered over a given period and discounted to the present time. For it, a **5% discount rate is usually recommended** for projects co-financed by the EU Cohesion Funds.

The main objective is to **establish the Financial Net Present Value** (FNPV) and **Financial Internal Rate of Return** (FRR) and everything is made via wide accounting tables containing all inflows and outflows. The main formulas utilized are:

$$\text{Benefit-Cost Ratio} = \frac{\sum \text{PV of Expected Benefits}}{\sum \text{PV of Associated Costs}}$$

$$NPV = \sum \text{PV of Expected Benefits} - \sum \text{PV of Associated Costs}$$

Economic CBA is instead done on an **opportunity cost basis** to assess socio-economic desirability: it considers social and non-market impacts, with costs being *shadow costs* tied to opportunity and benefits *reflecting public value*.

Benefits and Economic CBA

The Human Capital Approach for conducting CBA works by equating the value of time to the value of wages, which also allows for the calculation of the **value of a statistical life**. Naturally, this model has shortcomings, especially because markets are not perfectly competitive and it implies that people with higher wages are inherently more valuable than others. Moreover, this approach rests on the assumption that *individuals can perfectly and rationally assess their needs and be the best judges of their own welfare*, which requires a perfect information environment.

The most common method to assess whether an individual values a public good is through the **willingness to pay method** (WTP), which can be enacted either via:

- **Revealed Preferences**, which are obtained by observing consumers' activity in real life (i.e., the premium for a house near Duomo likely reflects the willingness to pay of people not willing to have long commutes). This, naturally, implies that **prices are good proxies of value**, which they are not and cannot be for goods that are out of the market.
- **Stated Preferences**, obtained by asking people directly how much they would be willing to pay themselves for a public good. This should discover the **true public value of a good** but has several shortcomings. Survey designs can bias results and people tend to *underrepresent their willingness to pay* for a public service if they know others will end up paying more anyway (most people that go on Wikipedia find it useful but have a near-zero WTP for it).

Performance-Based Funding

Basics of PBF

PBF is a funding model that allocates resources **based on achievements of predefined results**: the incentives mechanism is simple as it gives bonuses to success and reduces funding to projects failing to meet deadlines (just like in the corporate world). It has found wide adoption in development programs across the world **to enhance efficiency and generate measurable results**: the UN SDGs are a case of this type of funding being enacted at a global level.

PBF is based, like many things in NPM, on outputs and outcomes and helps with donations from private citizens, which **increasingly care about the effectiveness of disbursements**. Moreover, RBF can help ameliorate public sector services in terms of quality, staff motivation and general inefficiency, improving effectiveness, accountability and transparency.

To sum up features, PBF requires:

- **Pre-Defined Performance Indicators**.
- **Independent Audit of Results**.
- **Financial or non-financial incentives**.
- **Flexibility for Implementers**.

Types of PBF

A clear example of a PBF is the World Bank's Program-for-Results that brought roads to Vietnam's backwater regions. It rewarded the construction, rehabilitation or improvement of roads and bridges and disbursed a USD 381mn loan conditional on the achievement of results throughout the country. This type of PBF is known as **Performance-Based Aid**. **Output-Based Aid**, or OBA/GPOBA is another World Bank program to subsidize public or private providers of public goods and basic infrastructure in deprived areas.

Performance-Based Transfers are instead structured on the direct payment of funds to an institution contingent on the **achievement of results**. Usually, this is carried out by national governments or international organizations towards disadvantage institutions that cannot afford necessities like childcare. **Performance-Based Contracts** are more general and, again, focus on transfers based on results, even though they might be less direct than under PBT type of arrangements.

Development Impact Bonds are financing tools that are repaid with interest if the program achieves pre-agreed results: they are not tradeable but are closer to PBCs in contractual structure, while bringing in investors outside the main financing body. DIBs were used in India until 2018 to lift out of illiteracy millions of girls through the **Educate Girls Program**: UBS financed directly the project and the Educate Girls NGO delivered the interventions, while IDInsight verified results independently. The program exceeded all targets and investors received repayments with interest.

Conditional Cash Transfers are *demand-side performance incentives* to lift specific individuals out of deprivation by directly subsidizing the lacking parts of their lives. **Bolsa Familia** in Brazil works by sending money directly to households trapped in intergenerational or chronic poverty under condition to maintain **high school attendance and constant healthy growth for children**. Several countries like Mexico and Pakistan have observed the success of the model and are now seeking to implement it as well.

We can say that, in general:

- PBF is a **family of approaches to public project funding**.
- It links **money to verified returns and utilizes incentives to motivate action**.
- Its success is **contingent on the recipient having a minimum administrative capacity** and being **willing to undergo independent audit**.
- Such administrative capacity can be improved by enacting the PBF itself.
- PBFs can **unintentionally handicap relief efforts if the targeted population faces higher barriers to performance**: in Ukraine, many military objectives

couldn't be achieved due to lack of equipment promised for the accomplishment of such objectives.

Further Examples of PBF

The **Global Fund** is one of the largest global health financiers, especially in the most deprived areas and it has implemented a PBF structure since 2002. Outputs and outcomes are directly measured by **Local Fund Agents** that independently verify and report to a **Country Coordinating Mechanism**. Reports are quarterly and semi-annual, with the highest ratings freeing disbursement of funds, and inadequate ratings freezing funds. It's the most advanced PBF system but **it's not a silver bullet**.

The **Global Partnership for Education** has a PBF model hybridized with a majoritarian fixed funding part, which aids the recipient countries to improve their education system infrastructure even in case of extreme deprivation.

The **Essential Healthcare Package** aids Malawi's healthcare system development amid one of the most extreme poverty contexts. The main financier was USAID and Johns Hopkins was the executor of the program: performance bonuses could only be reinvested in facilities development and never cashed out, and every facility had to **submit a semestral business plan** to indicate strategies for further improvement. Performance was measured on a 13-objectives basis, both qualitative and quantitative. Results are, overall, mixed.

Trends in Public Management

Timeline of Public Service Reforms

In the 1990s NPM was made mainstream following the Thatcher and Blair reforms in the anglosphere, emphasizing **decentralization of implementation**, **managerial accountability and target orientation**, alongside a stronger focus on competition and specialization. It created *semi-autonomous agencies with managerial freedom*, while fragmenting services and imposing an overly short-termist view of public welfare, potentially upending equity.

This started changing in the late 1990s and early 2000s due to two main trends:

- The **shift towards Joined-Up Government**, which aimed at shoring up the weakness in the strategic coherence of public action, introducing cross-agency cooperation and blur the boundaries between policy *design and implementation*.
- The **Digitization of Government** after the massification of ICT and the introduction of e-government and data-driven programs to enhance transparency and increase responsiveness while **reducing the administrative burden for citizens**.

Now we are in the post-NPM era, which is aiming at a synthesis between NPM and Weberian Bureaucracy, specifically by **restoring equity and trust in the public sector** and recreate an environment of **cooperation over intragovernmental competition**.

This contributed to the emergence of new trends in public administration.

New Trends and Examples

Governments are now increasingly **forward-looking** and developing techniques to accommodate this shift in ethos. This includes engaging citizens and firms in co-creation efforts to engage the citizenry and private sector (*co-created services*) and leveraging **collective intelligence**. This trend is expected to start a move **towards resilient and adaptable public services**. In Finland, for instance, the government has started implementing an education-labor-market **matching tool** that uses AI and data to forecast the citizens' future skills development and the private sector's demand. In Norway, this took the form of the **New in Norway** portal for immigrants to properly steer them towards integration and economic productivity.

Governments are also involved in the **strengthening of public infrastructure** and implementation of AI/Data Gathering tools on the basis of interoperable and adaptive systems. This goes hand-in-hand with **human capital investments to train workers to be tech-savvy**, emphasizing futureproofing. The Italian INPS has pioneered AI systems to manage the surge in benefits requests during and after COVID and is now experimenting with LLMs to better manage the growing tide of unstructured data.

There is also the **shift towards personalized services** that respond to people's needs more effectively. This is carried out by integrating data platforms with behavioral sciences to effectively reduce barriers to outcomes in services, especially for vulnerable users. In Serbia, AI assistants for the deaf have been implemented in airports and train stations to provide better help. In the US, the **application system to request aid after natural disasters has been simplified** and made **more personal** thanks to a FEMA reform including trauma-informed training and reducing registration times by 15% in most cases.

Data Powered services can also be utilized to **improve surveillance and adapt faster to emerging needs**. There has also been a rise in the number of **open data platforms** to allow citizens and researchers to gather quick insights on their government and markets. Singapore utilizes a *digital twin* of the city to test flash-flood scenarios and prevent damage, while South Korea implemented smart public transport stations that **reduce emergency response times and contribute to the reduction of petty crime**.

Finally, all these trends can be also enriched by **public participation incentives** to respond to the current crisis of trust in the public sector, increase civic participation and restore accountability in the state apparatus. France pioneers these trends by **implementing Citizen Initiative Accelerators** (to select and incubate productive citizen initiatives and projects) and **Open Food Facts** (that combine all public knowledge on most foodstuffs in the country's retail market).

Conclusions

The potential of all these trends is transformative and can lead to the consolidation of a new praxis in public management, making institutions **data-driven, resilient and more efficient**. They will define the future of entire careers and likely steer the policy direction of governments or geostrategic blocs and even *influence private management if long-termism returns a more popular management philosophy*. From ethics to regulation and provision of goods, public management is currently in an innovation paradigm.

Face it head-on. Go Forth and Conquer!

- *Piergiulio*

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