

**The context for public service innovation: the case of Italian national railroad company
by Eugenio Corti(**) and Alfonso Marino(*)**

(**)Associate Professor, Economic and Business, University of Naples, Faculty of Engineering, Federico II.

(*)Associate Professor, Economic and Business, Second University of Naples, Faculty of Engineering

Abstract

This work takes into account the problems linked to the context for public service innovation in terms of: professional skills, management capabilities and training needs in the public utilities in Italy. Starting from privatisation theory as economic and organisational notions, we concentrate our attention on human resource and cultural aspects as two important issues of service supply and its quality. It is not easy to take into account the development of research methods in service management and more particularly in the Italian public sector because it can be regarded as a “son with many fathers”, but in recent years there has been an increasing interest in the application of service management theory to Italian public utilities, linked to service supply and its quality. Any service supply is greatly dependent upon how the objectives and the managerial resources interact and become integrated with regard to the requests of the users and personnel in terms of ties and opportunities. In this context we explore the case of the Italian National Railroad Company, FS, one of the most important Italian public utilities.

Introduction

This paper takes into account problems linked to professional skills, management capabilities and training needs in the public utilities in Italy. Starting from privatisation theory as economic and organisational notionsⁱ, we concentrate our attention on the service management capabilitiesⁱⁱ and training needs as two important issues of the professional skillsⁱⁱⁱ, service and its quality^{iv}. We show the case of FS, as service organisation. The theoretical aspects of management capabilities and Italian public utilities are discussed in the first section. The second section takes into account the importance of cultural elements in organisations and more particularly in F.S. The third section points out the relevance of service supply and human resources, important elements of management capabilities, the F.S. The fourth section joins the first three aspects (management capabilities, human resources and service supply) to design a new management process for F.S.

1. Management Capabilities and Italian Public Utilities

In recent years there has been increasing interest in the use of service management theory on Italian public utilities. This interest has two aspects: *the first* is an interest in the specific use of service management theory in the public sector and takes the form of importation of ideas and methods developed in and for the private sector. This importation is usually based on a desire to improve the public sector. The assumption is, naturally, that the private sector is superior to the public sector in specific ways: private sector organisations are more cost-consciousness, more inclined to implement modern personnel management, more capable to develop corporate culture as a steering instrument. The question is, can public utilities be improved by importing methods and ideas from the private sector? In addressing this question, attention is focussed on incentives to productivity and particularly on the necessity to create in public utilities some reliable measurements for management efficiency. *The second* aspect is an interest in the use of service management theory in the study of the public sector. Here the aim is somewhat different: do theories and concepts from service management theory help us to understand the Italian public utility sector better? The focus of debate regards the following services:

ⁱ Erridge A., (1996), “Innovations in Public Sector and Regulated Procurement”, pp.217-238, in : Cox A., (ed.), (1996), *Innovations in Procurement Management*, EARLSGATE PRESS.

ⁱⁱ .

ⁱⁱⁱ Swamidass P.M., (1991), “Empirical Science: New Frontier in Operation Management”, *Research, Academy of Management Review*, october, pp.793-812. Chase R.B., (1978), “Where does the customer fit in a service operation?”, *Harvard Business Review*, Vol., 6, No.,56, pp. 137-142

^{iv} Stannak P., (1996), “Values and Value in Public Sector Purchasing”, pp. 253-272, in : Cox A., (ed.), (1996), *Innovations in Procurement Management*, Earlsgate Press.

- a) ENEL (National Electric Company)
- b) TELECOM (National Telephone Company)
- c) FS (National Railroad Company)
- d) ALITALIA (National Airline Company)
- e) PT (National Mail Company)

The growth of administrative activity is the starting point in the service management literature. In Italy, public utility activity can be seen as the output of the public economy. Various elements in the public economy, such as political parties, public utilities, interest groups or politicians, the role of public managers, influence the development of the public economy. These elements all have different interests and will look for support to get their demands and wishes realised. Italy, it is argued that certain characteristics of the public economy, such as public expenditure or bureaucratic organisation, can be effective because of the absence of competition; but that they produce an inefficient system of resource allocation. Particularly in the service sector the users do not pay directly the real market value for the use of services provided by public utilities. In other words the main element is that the Italian public utilities don't pay attention to efficiency (cost), choice and equity. The primary motivation linked to service management in Italian public utilities, is the costs of personnel and high running expenses. In this context the role of top and operations management are essentially problematic. From a managerial point of view, attention to the efficiency, the effectiveness and in general to the operative functionality of the different institutions that make up public utilities are basic elements in the confrontation between political, social and economic forces in our country.

2. A New Logic Within F.S: a Cultural Challenge

A short history of F.S. will let us better understand the nature of F.S. The FS is now a century old', and has played a central role. It is important not only for the number of employees, the amount of capital involved (both fixed and circulating), the breadth of goods and services it offers, but also for its contribution to the GDP; most recently estimated at 1,4%. The first act of nationalisation of the principal Italian railways was written in 1905. The "Azienda Autonoma" was created to improve public service and operating flexibility. Until January 1986 the F.S. were "Azienda Autonoma Statale". After that date the F.S. had a new institutional configuration, they became "Ente di Diritto Pubblico" (see law 17 may 1985, n.210). The goals of that reform were related to improving the efficiency and effectiveness of service and increasing the autonomy and the flexibility of the firm.

It was suggested that the local railroad could be managed by a local institution such as the district, while the service that has a high performance, the high speed projects and intercity service, could be managed without the direct presence of government. It is an important question because the district has no managerial or organisational knowledge of the transport sector; has no solid financial base; so what would all this mean for the service? On the other hand the national State has created many ills but also a system that served the whole nation.

The "Ente di Diritto Pubblico" F.S. was placed under the economic and managerial control of the Ministry of Transport. Ownership of the F.S. property was separated from the ministry. The profit had to be increased so the F.S. could finance itself. We have to highlight that the F.S. budget had always required public funds. More generally, it was not be able to cover personnel and production costs. The board of directors deliberates the railway rates, and the Ministry of Transport passes them. Until now the difference between the rates recommended by the board of directors and that set by the Ministry of Transport has been covered by the central government according to U.E. legislation (n. 1191/1969). The absence of the central government, in the public transport sector, has shown by special administration which has been remained for 4 years (1997-2001), with this last sentence the central government stopped subsidizing train service. According to U.E. directive n. 440/1991, the F.S. has been transformed in private firm.

Major changes followed the new legislation:

- *Employees*: from 1997 to 2001 the number of people employed by FS fell by 31%, currently the number of employees is 116.294.
- *Passengers*; in the same period the number of passengers increased by 2,2%, and sometime the *goods* have had a positive performance of +13,6%.
- The ratio of *traffic/employees* has increased 27,7%.
- The ratio of *costs/traffic* fell by 21%.

While these aspects are important, ~~but~~ we must remember that this effort must be supported by development of management capabilities. In fact, productivity and economic incentives cannot assure by themselves a better quality of supplied services, the final output of organisations. The problem is not exclusively an economic one but to this day concerns the whole management capabilities of the Italian public sector.

Management capabilities oriented to norms and proceedings must take into account the limits and difficulties raised in the last years. Changes in symbols, values and languages but also, the ability to face problems and changes that require learning and the ability to act and relate, are basic elements for the improvement of top and operations management.^v F.S. has not been developing a new culture of management and effectiveness of service supply, and moments of real application. More generally, it has not been pointing out the new requests coming from the environment of reference and the resulting modifications of role that they must undertake. Until now, public utilities have been managed almost exclusively from an administrative and juridical-formal point of view, instead of being oriented to a culture of aims and results which could allow staff to regard services not only as an administrative pole but also a managerial one.ⁱⁱ

Until now, the attention of government has been focussed on the elaboration of normative and institutional instruments. Now FS emphasizes relating the different expectations of employees and users. It must be noted that a service culture is still absent within the public utilities. The service supply is above all the result of a social interaction in which the relation between the needs of personnel and the demands of users improve the performance of the company. The challenge is to put service management elements within public utilities. In FS, in primis, this will require a shift from bureaucratic logic (*Figure 1*) to competitive logic (*Figure 2*).

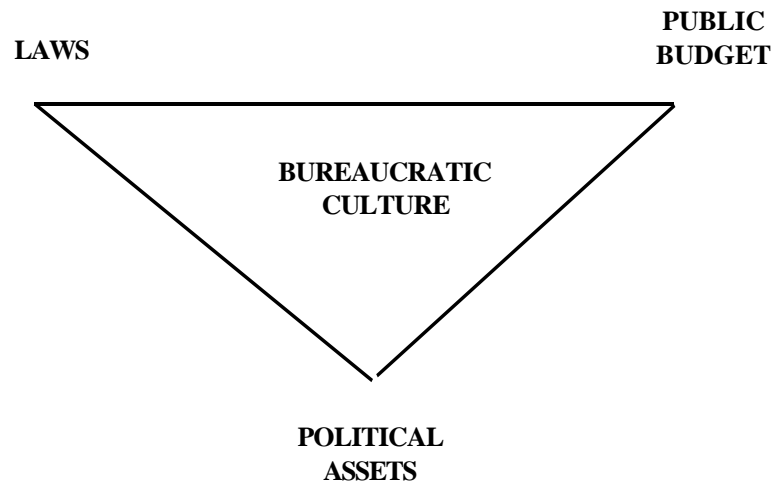


FIG.1 BUREAUCRATIC LOGIC

^v Mintzberg H., (1973), *The nature of Managerial Work*, Harper & Row, New York. Sasser W.E., Olsen R.P., Wychoff D.D., (1978), *Management of Service Operations: Tests Cases and Readings*, Boston: Allen & Bacon.

ⁱⁱ March J.G., Olsen J.P., (1989), *Rediscovering Institutions, The organisational Basis of Politics*, New York, Free Press. H.A. Simon H.A., (1945), *Administrative Behaviour*, New York, Free Press.

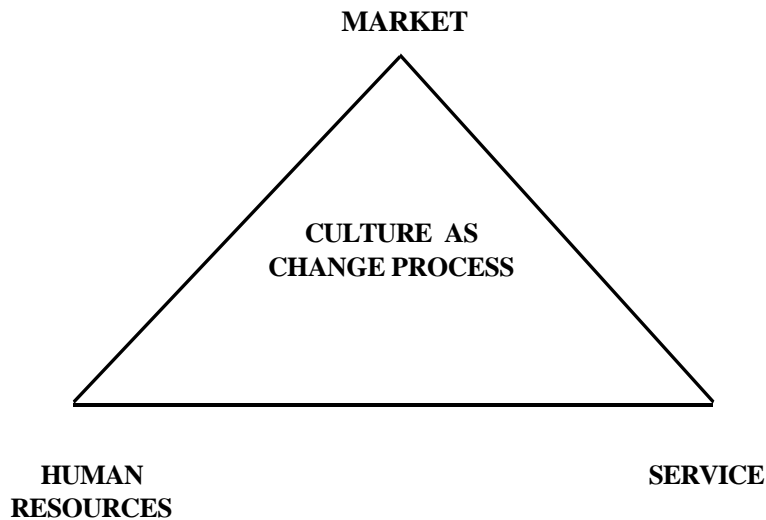


FIG.2 COMPETITIVE LOGIC

What does a change logic mean for FS? To start with, it is important to open the system. To open the system means:

- a) more attention to the market;
- b) a different culture of human resources;
- c) more attention to service supply and its quality.

In Italian railway system is important, first, to give more space to the market, in terms of information widely diffused, a deep knowledge of the customer and the different segments of the market, and more attention to the idea of travel and its business. A second step must improve the culture of management. In this case the role of public sector with its privileges linked to the system of work, control and direction must be broken to create different behaviours and goals within the FS and between this latter and customers. The last element is the improvement of the quality of the service. The absence of a monitoring system has created a lack of attention to customer value and quality of service. Obviously the monitoring system is the point of iceberg. Starting from service as social interaction and the nature of the relationships between the organisation and the customers, the FS must change its mission. The importance of this assumption is linked to a new idea of service, where both the train, security and service (comfort, accuracy, noise) must be taken into account. In this sense we underline the necessity to modify the layout of the station, and the visibility and the use of information. The challenge is to open the system in terms of customer value and a new culture of service. The train and the station are the stage, the front office is the place where the customer will meet the service, beyond the stage and front office we have the managers with their own culture and personal histories. The service is social interaction, meant to create a high level of communication with the customer and within the FS. Is it possible to create an organisation that listens to its customers? The first step is to open the system, its culture and action. After this, step by step, it will be possible to put in place the system elements of service management, so that it will be linked not only to the economic perspective but also to the social legitimization of the service. To open the system means to improve the economic performance of the company, but also to improve the value of the service and the behaviour of customers.

3. Service Supply and Human Resources

Service supply pertains to the management of organisations whose core business entails an intangible process that is delivered to the public. In contrast to most manufacturing organisations, services are typically produced in the presence of the customers, often with considerable participation by the customer and interaction with organisational members. Also in contrast to manufacturing, service delivery requires extensive coordination between the front office and back office, a service culture on the part of the front line workers, and ability to manage customer expectations regarding each stage of the service. In order to address all the themes, we think it appropriate to start from some basic hypotheses; in other words, it is necessary to choose a visual angle from which to analyse the functioning dynamics of the FS.

Starting from those elements means analyzing the complexity and the specifics of the service.ⁱⁱⁱ The characteristics are:ⁱⁱⁱⁱ

- a) in most cases, the production and use of service occurs simultaneously, in close contact with the user;
- b) as a consequence of this observation, the resulting service supply, because of the interaction between user and management, is generally unpredictable;
- c) the factors which determine the decision process are not always standardizable in pre-codified norms;
- d) improvement of the service requires an ability on the part of the system to acquire and manage information concerning the deficiencies founded in the process of service supply.

Any service supply^{xx} is greatly dependent, as a first approximation, on how the objectives and the managerial resources interact and become integrated, with regard to the requests of the users and personnel, not only in terms of demand but also in terms of ties and opportunities. The datum from which we start is the kind of change that occurred in the requests of the users. More generally, for the services of public utilities the typology of demand depends on the development of the demographic structure, the improvement of the way of life and socio-economic conditions, the widening of the welfare state, the effects of scientific progress and automation; all these factors have a great influence on the configuration of a specific company as well as the typology and modalities of service supply^x. The quantitatively oriented culture of the past must be taken advantage of in a transition stage even though it may contradict the vision. FS must reconcile the paradox of using that traditional culture on the one hand, and on the other hand act so as to create the conditions for changing it. At the moment the evaluation of the results of service supply [when we use the word “supply” we are speaking only of the amount of service supplied.] involves above all the use of variables concerning quality of serviceⁱⁱ and variables of efficiency. One of the strategic routes has been an increased concentration on customer satisfaction, courting the customer through a focus on service quality. On the other hand, poor service has been identified as the primary reason why customers switch to competitors. The necessity of taking into account all of these factors is due to the fact that service operations management is a complex and sensitive system in which many functions and factors are closely interconnected. If operations management does not achieve a rapid and clear awareness of change and the need for a fundamental change in attitudes and behaviour at all levels of the company, there is a great risk that FS will lose its historical pre-eminent position to more agile competitive systems that provide service offerings more closely adapted to real customer needs. Therefore, in diagnosing the difficulties of service supply, identification of a single element or problem is rarely sufficient to go back to the causes. Generally, we get better results if we analyse problems in terms of vicious circles in which many different factors influence each other. A more complex description reflects the nature of service supply and contributes to the discovery of strategically key areas in which a change could turn a vicious circle into a virtuous oneⁱⁱⁱ

4. Management Capabilities and Culture Within FS

In this section we will briefly deal with the main figures occupying managerial positions in the FS. As to the academic background of top and intermediate administrators, whether at national, regional or local levels, the most common qualification is a degree in law. A law degree allows them to deal with the legal aspects of administrative procedures involved in the job, as well as with the administrative management of personnel. One of the most important characteristics related to selection and employment of management has been the verification of formal and general knowledge without a verification of skill and ability in managing employees. The background of

ⁱⁱⁱ. Mabert, V.A., (1982), “Service Operations Management: Research and Application”, *Journal of Operations Management*, vol. 2, No. 4, pp. 203-209.

ⁱⁱⁱⁱ. Kulonda D.J., Moates W. H., Jr, (1986), “Operations Supervisors in Manufacturing and Service Sector in the United States: Are They Different?” *International Journal of Operations Management*, vol. 6, No. 2, pp 21-35. Flynn B.B., Sakakibara S., Schroeder R. G., Bates K. A., Flynn E. J., (1990), “Empirical Research Methods in Operations Management”, *Journal of Operations Management*, vol.9, No.2, pp 250-284.

^{xx}. Lamming R., (1993), *Beyond Partnership*, Prentice Hall International (UK) Limited.

^x. Mintzeberg H., (1985), “The Organisation as Political Arena”, *Journal of Management Studies*, vol. 22, No. 2, pp.133-154.

ⁱⁱ. Parasuraman A., Zeithaml V. A., Berry L. L., (1988), "SERVQUAL: A Multiple-Item Scale for Measuring Consumer Perceptions of Service Quality", *Journal of Retailing*, vol. 64, spring;

ⁱⁱⁱ. Normann R., (1984), *Service Management, Strategy and Leadership in Service Business*, John Wiley and Son.

the great majority of management is totally lacking in disciplines such as organisational theory and development, management, or job organisation. Currently, management in directive positions within the FS are daily struggling with a control system that is very strict and inflexible. A good part of their time is spent in coping with the interpretation of laws and with the difficulties related to the legal control of procedures. Little or no attention is given to results. This behaviour is a typical cultural feature of these figures. Instead of operating with a pragmatic approach, a considerable part of their energies and time is devoted to an unnerving debate centred on the abstract definition of what their own tasks should be. During their training, managerial and organisational studies were completely ignored, their academic curriculum was basically conceived with the abstract aim of getting good lawyers; nothing was done to prepare them to work within an institution, nor to train them to face an organisational reality. Managerial and organisational issues have often been neglected and subordinated to social and political priorities. The organisational model employed coincided to a large extent with an administrative structural model based on bureaucratic principles which are not suited to the new complex, different system. To gain a better understanding of the nature of managerial culture work, within FS it is important to analyse the different strategic choices that must be taken. The changes in culture and behaviour that are required call for a new model of management: moving from management by rules and instructions to management by objectives and learning; seeing leaders at all levels, including the top, as interpreters of stakeholder demands; viewing leadership in terms of continuously articulating and making the vision and changed world view concrete to the organisation. In this context, considerable attention must be dedicated to the setting of the monitoring system. A first element of service quality evaluation can refer to the relation between expected service and supplied service, and how the organisation perceives the supplied service. In the light of these introductory statements, the operative indicators refer to the characteristics of service as they are perceived from the user and the front-office at the right moment. At this point, a useful methodological instrument is a "user's cycle". Analysis by means of a user's cycle shows the principal critical problems of the service supply. FS needs reinterpret its traditional historical technical service into a customer value excellence formula. The train experience must be reinterpreted as a travel experience and even into a relationship experience where the customers are the focus.

More particularly three problematic areas can be identified by emphasizing, respectively:

- a) *personnel motivation*, which depends on the ability of the system to interconnect individual strategic objectives and organisational objectives. In this sense the quality of service becomes a relative concept, that can be measured and evaluated by means the relation between the users' perception and that of the personnel;
- b) *the ability to face the uncertainties*, above all by means of the regulation of the interdependencies between organisational and professional subsystems. A negative performance of supply service causes a user's bad perception of provided service with a negative social legitimation. At this stage, the organisation must react by means of an appropriate reformulation of its strategy in order to avoid critical effects in terms of a qualitative decrease of its performance.
- c) *the modalities of management and control* which influence the mechanism and the legitimacy of attribution of the objectives of the performances which are coherent with the general plan and consequently the presence of real possibilities of control and the harmony between service supply and appointed objectives.

Conclusion

This study started with some remarks concerning the culture and the role of service management within FS. A first analysis revealed a low attention to the development of service and managerial culture. This turned out to be characterised by a low presence of functions relative to service co-ordination, management and control. The challenge is to open the system and change culture. The processes of efficiency have produced in our country some tangible improvements, but in some companies, particularly FS, to change the culture of management means to pay attention to the quality and service.ⁱⁱⁱⁱ The service must be linked to a new culture within FS. This approach contends that the FS's primary goal is to better meet customer requirements by improving service. More generally, it has to take into account the conflict between the old culture of management within FS and service management theory. These approaches have fundamentally different behaviours and goals. At the root of the previous model is a bureaucratic logic without any attention to the openness of the system. The new approach should be able to pay

ⁱⁱⁱⁱ Rada J., Vandermerwe S.,(1988), "Servitization of Business: Adding Value by Adding Service", *European Management Journal*, Vol. 6, No.4, pp.314-320

attention to customer satisfaction. This approach does not reject the notion that a primary objective of the firm should be the pursuit of profit, but it views long run profitability as an outcome of serving customers rather than as driving force. The change culture approach takes into account individuals as customers, motivated by economic, social and psychological goals relating to the service. This approach emphasizes dynamic performance improvement. Managers - within a service management model of public utilities - have the expertise to co-ordinate and direct subordinates; on the other hand, they have to improve co-ordination and control as a learning process linked to the environment and needs of customers. Another relevant aspect related to service management as change process regards the "information system". In the service organisation the information system normally matches the hierarchical structure: key functions are the decision support system and monitoring subordinates from the top. In this process of information, as top/down or bottom/up processes, the role of customers is strategic. The firm has to pay particular attention to dynamic process, and to stress the role of management as the first customer of the organisation. The distinction between firms and market is central for analysing the price mechanism (the invisible hand), which governs external transactions, while administrative process (the visible hand) governs internal transactions. The distinction between firm and market is determined by relative costs. The internal and external transactions of companies, do not consist simply of managerially directed rules and decisions; it is also a process of interaction involving managerial direction, markets, relations and customer satisfaction.