



MINISTRY OF FINANCE

# HANDBOOK ON PERFORMANCE MANAGEMENT

2/2006

GOVERNANCE  
AND  
ACCOUNTABILITY

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2/2006

*MINISTRY OF FINANCE  
PUBLIC MANAGEMENT DEPARTMENT*

GOVERNANCE  
AND  
ACCOUNTABILITY

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| <b>Summary</b>   | Handbook on Performance Management covers the main principles of the Government performance management and accountability reform (2004), the application of the new budget provisions and good performance management practices in different administrative fields. Attention has also been paid to the definition of performance concepts. The Handbook utilises the versatile knowledge and personnel network created during the accountability project. The participants of the work include the Government financial controller's function, all the ministries and numerous other agencies, such as the National Land Survey of Finland, the National Board of Patents and Registration, the State Treasury and VTT the Technical Research Centre of Finland. There have been numerous persons who have provided and written the texts in the different |  |                      |

sub-areas. In addition, numerous civil servants have given feedback and comments on the various draft versions of the Handbook. The entity of the publication, the writing of the text segments and the editing of the texts in a uniform manner have been the responsibility of Mr Matti Salminen, Ministerial Counsellor and Ms Marja-Leena Viitala, Project Assistant at the Ministry of Finance.

The Handbook can be used as a practical tool for both civil servants participating in performance management procedures and the executives of the ministries and agencies and the experts assisting them, who are in charge of performance agreement negotiations and of the development of performance management procedures in the different administrative branches and agencies.

#### **Introduction**

- 1 Features of Public Administration in Finland**
  - 2 Performance Management and Accountability in Administration**
  - 3 Performance Targets and Basic Performance Criteria**
  - 4 Presenting Performance Targets in the Budget and in the Operational and Financial Plan**
  - 5 Contents and Targets of Performance Agreements**
  - 6 Performance Measurement and Indicators**
  - 7 Performance Reporting and Accounting by a Government Agency**
  - 8 Handling the Final Accounts and Statement of the Ministry**
  - 9 Accountability and how it works**
  - 10 Evaluation and Impact Assessment**
- Appendix: key performance concepts**

## TO THE READER

For the past ten years, management in Finnish central government administration has been directed towards management through performance targets. The principal instrument for performance management is the central government budget. Its explanation parts increasingly focus on performance targets, which justify the allocation of appropriations. The Government and the ministries report to Parliament annually in the Central Government Final Accounts Report.

The ageing of the population will increase the need for public social welfare and health services and pressures towards increasing public expenditure. The Government has launched an extensive local government and service structure reform. The productivity of central government will be increased through central government spending limits approved by the Government and through productivity programmes implemented by all ministries. The Government expects productivity improvement to strengthen the growth prospects of the national economy and the sustainability of the funding basis of the welfare state.

Finland has performed well in many international comparisons. Our competitiveness has been ranked high. Finland is a safe country with a low level of corruption and a high level of environmental protection and health care. We have done well in international studies on learning. According to the PISA study, Finnish children have a significantly better literacy rate than children in other OECD countries. Finnish girls did particularly well in this study.

Globalization has its impacts on Finland and on Europe as a whole. We are very conscious that success in international commerce and competition requires continuous efforts towards improving productivity, generating innovations and learning new things. Competitiveness is something that we must secure anew each day; happily, though, there are still many things that depend only on ourselves. Thus, I want to draw attention to the importance of quality issues in working life, such as good management, personnel development, cooperation and human capital.

At the European level, we need shared values, clear targets and management that will enable us to reach better results with fewer regulations and less bureaucracy. Improving competitiveness and employment is a shared target and challenge for the entire European Union. Citizens' confidence in a common Europe can only be strengthened through actions and results.



Eero Heinäluoma  
Minister of Finance

## INTRODUCTION

*Performance management is an agreement-based interactive control model. Its operational core is in the ability of the agreement parties to find the appropriate balance between the available resources and the results to be attained with them. The basic idea of performance management in operations is to balance resources and targets on the one hand and efficiency and quality on the other as well as possible and to ensure that the desired effects are cost-efficiently achieved.*

Public finances and the control of the government economy and operations will be facing significant challenges in the next few years. In an open economy which should be internationally competitive, maintaining the financial base of the public finances in its present state it is not without its problems. Due to globalization, the change in the population structure and many other factors, expenditure pressures on public finances are rising. At the same time, the population and businesses expect increasingly high-quality services from both central and local government. Securing the sustainability of public finances as a whole, maintaining national competitiveness and securing the quality and availability of public services require a continuous and verifiable enhancing of the effectiveness, operational efficiency and productivity of the government and the operations it finances.

The starting point for the performance-oriented thinking described in this handbook is that the results of operations in the public sector are weighed and estimated from the perspective of both societal advantages gained and efficient use of resources. Good results cannot be attained, even if the desired effects are produced, if resources are wasted or ineffectively used. Correspondingly, mere production efficiency is not enough for a good result; the quality of the outputs and the service capacity of the government agency in question must also be acceptable. The set of performance targets and indicators must thus be versatile and comprehensive enough to give a true and fair view of the operations and performance of ministries and government agencies.

The central government accounting model was reformed in 1997. Commercial accounting was added to the administrative accounting which had concentrated on the monitoring of how well the budget was implemented. The model now incorporates both commercial accounting and budget accounting. Government assets were also inventoried in the



reform and a national balance sheet created. The balance sheets of government agencies and institutions and the commercial accounts make the systematic monitoring of assets on a long-term basis possible and provide a foundation for genuine cost attribution.

The purpose of the budget legislation reform in 2004 was to enhance performance management and accountability in the administration significantly. In practice, better performance management and accountability require, for instance, reform of government annual accounts reporting and accountability procedures as well as rigorous development of accounting functions and management practices. The budget legislation contains, among other things, new provisions on the Central Government Final Accounts Report and on the Government financial controller's function, on performance and management accounting, on annual reports and on reporting of performance and on the statement of the ministry on the final accounts. The budget legislation provisions defining accountability in administration strongly emphasize the requirement for submitting true and fair information.

In the budget legislation provisions, the basic criteria for performance have been re-defined. These basic concepts of performance make a distinction between *policy effectiveness*, which is broader, and *operational performance*, which the management of a government agency or institution can influence directly. Operational performance has been divided into three basic criteria: operational efficiency; outputs and quality management; and management and development of human resources. Thus, the basic concepts of performance used to evaluate and report on public-sector operations involve four basic criteria:

- policy effectiveness;
- operational efficiency;
- outputs and quality management; and
- management of human resources.

In analysing performance factors, it has also been emphasized that the results must be achieved by using personnel resources wisely, continuously developing know-how and continuously improving operational processes. The performance concepts include management of the human resources of the organization, which involves development of the competence, working capacity and work motivation of personnel and development of management practices.

The accountability of the management and staff of government agencies involves rewards for good performance in addition to eventual sanctions, through performance-related pay. Performance-related pay in government is a group-specific form of reward in which the targets are set by profit centre and by group. Experiences in piloting government agencies show that performance-related pay is suitable for very different agencies and environments as long as it is integrated into the strategy of the organization and its performance targets. The fact that performance bonuses are always conditional and contingent on performance and are not fixed costs is considered the advantage of the reward system.

Enhancing the strategy work and performance management of ministries has been the main target of the central government administration reform. The responsibility of ministries in supervising their respective administrative sectors and policy sectors and enforcing accountability has been emphasized in the budget legislation. An important challenge for the ministries' own accountability is the evaluation of the policies implemented by the Government and by the various ministries, and the development of suitable evaluation methods and indicators for this. Evaluation must be aimed at the examination of the societal impacts of the various policy sectors with a joint evaluation strategy used by all the ministries.

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## USEFUL LINKS AND REPORTS

# 1. FEATURES OF PUBLIC ADMINISTRATION IN FINLAND

## 1.1. The structure of public administration

### *Central Administration*

#### *Ministries*

In Finland the Government constitutes of twelve ministries (average 200-300 people in each) and the Prime Minister's Office. The ministries prepare political decisions to be taken by Government and legislation to be adopted by Parliament. The ministries implement laws and decrees within their sectors of administration.

The ministries also represent their relevant administrative sectors in domestic and international cooperation. Another important task of the ministries is directing and supervising agencies and institutions operating within their sectors of administration. The steering of agencies is largely based on the system of performance agreements.

The Government administration has an average total number of 125,000 employees; 24,000 of them work in central administration agencies and institutions and 55,000 in regional and local administration. Universities have approximately 32,000 employees.

#### *Agencies*

Central administration agencies and public bodies function under the administrative sector of each ministry. There are about 100 of these organisations and they have over 20,000 employees.

The preparation of political decision-making and steering of implementation belong to the ministries. The agencies are in charge of implementation, in which they have fairly extensive independent competence. The central tools of the ministries in steering im-

plementation of Government policies are normative steering and performance guidance. Under the main rule, the ministries may not interfere in an individual issue being prepared by an agency.

Many agencies and public bodies carry out administrative tasks, for example the National Board of Customs and the National Board of Taxes. Some have extensive information management and registration tasks, as is the case with the National Board of Patents and Registration and the Population Register Centre. Many agencies and public bodies are responsible for developing a specific sector and producing related information for society as a whole. These include the National Board of Education and the National Research and Development Centre for Welfare and Health (STAKES).

State research institutes form an important group of public bodies, the largest of which include the Technical Research Centre of Finland (VTT), Geological Survey of Finland and the Finnish Forest Research Institute. In addition, central administration encompasses several other smaller research institutes.

### *Regional level*

Regional Government administration signifies authorities functioning within the administrative sectors of ministries, which enable ministries and agencies to carry out their responsibilities at a regional and local level. Most authorities acting on the regional level can be characterised as expert organisations. The most prominent representatives of these organisations are 6 State Provincial Offices, 15 Employment and Economic Development Centres (TE-Centres) and 13 Regional Environment Centres.

Many ministries and to them underlying agencies have district authorities within its sector of administration, which are responsible for various tasks involving research, guidance, supervision, information, reporting and jurisdiction.

The recent developments of regional administration are based on cooperation among various authorities having their origin both in municipal and Government structures. Current challenges for regional administration include the development of online services and customer-orientation.

### *Local level, municipalities*

There is a strong tradition of local self-government in Finland. Municipalities are responsible for organising the majority of public services. The municipal administration has an average of 430,000 employees. The highest decision-making body of a municipality is the elected council, which appoints the members of the municipal board preparing and executing council decisions.

The council also selects committees, which direct the provision of public services in the municipality. The most common committees include those for education, social welfare and health and land-use planning. The committees have previously been responsible

for the production of services, but are increasingly becoming purchasers rather than producers of their own services.

Many municipal tasks can be carried out more appropriately and more economically in conjunction with other local authorities. Finland has a high proportion of small municipalities, which would find it impossible to manage all of their tasks alone, while keeping the tax burden at a reasonable level. Initially, cooperation among local authorities was voluntary, but gradually alliances between municipalities became compulsory. In recent years, the financial problems of local authorities have led to mergers and a significant increase in cooperation between municipalities.

There are 250 joint municipal authorities in Finland. Joint authorities are set up by two or more municipalities to tend to specific tasks on a permanent basis. The most typical joint authorities include regional councils, hospital districts and districts for care of the disabled. Joint authorities are also set up to perform functions related to public health, and education.

## 1.2. Introducing the administrative reform programme

The public services production came under heavy criticism in the 1980s. Researchers were increasingly critical about the quality, quantity and accessibility of public services, and administrative studies showed that citizens were to an ever greater extent dissatisfied with the quality of the services and the bureaucracy involved in their production. This approach was adopted by researchers on the strength of international models; the theme had been current in the Nordic countries and in the Anglo-Saxon world for some years.

Another finding highlighted in the research was the inefficiency of service production. It was observed that an increase in public expenditure did not necessarily translate into an improvement in the quality and quantity of services. Indeed, the administrative hierarchy seemed to have a powerful vested interest in its internal development, to which big part of the extra available funding was channelled.

The research results gained attention in the media. Soon the political parties took up the theme as well, and it was in the run-up to the parliamentary election of 1987 in particular that requirements for customer-oriented public services and increased production efficiency were advocated. In the Government Programme administrative reform was given prominence like never before in post-war Finnish politics.

For the first time, a special ministerial committee for administrative development was appointed within the Government. A ministerial post was created for the purpose of administration reform. Ever since then, the quality of public services and the efficiency of their production have remained a prominent theme on the Finnish political agenda.

The Ministry of Finance was responsible for administrative development, and on the basis of its outline policies the ministerial committee shaped the administrative reform



programme. The following is a summary of the principal administrative policy outlines voiced by the committee.

1. Political decision-making is focused on strategic management instead of operational issues.

Following this principle, day-to-day decision-making was extensively delegated and decentralized, cascading down the hierarchy. Lower-level binding norms were overturned *en masse*. The right of ministries and government agencies to issue norms was cut and pruned significantly. It was observed that it was Parliament and Government with whom political responsibility rested, that should be entitled to issue norms.

2. The content and procedures of decision-making involving finances were amended so as to focus on the setting of performance targets instead of detailed input allocations.

*Performance management* and performance budgeting were introduced over a period of several years by revising one part of the budget at a time. The transition took five years in all. The core of the reform was, on the one hand, to combine the numerous agency-specific expenditure appropriations into one single lump sum for each agency and to give agencies much greater latitude in how to spend that appropriation, and on the other hand, to require agencies to commit themselves to agreed performance targets in return. This reform represented a shift in the financial steering roles of all political actors and all hierarchy levels of the administration.

3. The performance management reform was extended to the relationship between central government and local government by delegating authority previously held by central government to the autonomous municipalities.

The grants paid out to municipalities from the central government budget were revised, and the sector-specific division into appropriations for schools, hospitals, social welfare, etc., was abolished. Instead, the government grants to municipalities are now paid as a lump sum determined on the basis of the population structure of the municipality. There are very few limitations on how local authorities may choose to spend this money. The norms issued by central government agencies that had closely governed what local authorities might and might not do were repealed, and the central government agencies that had existed solely for the purpose of guiding and supervising local authorities were disbanded.

4. Chargeable service production was largely transferred to market circumstance to achieve better customer-orientation and economic efficiency.

The number of personnel paid out of the central government budget was slashed by almost half in the early 1990s as the result of transferring services to the competitive environment. Two major service providers — Finland's Post and Telecommunications and the Finnish State Railways — and a number of smaller ones were turned into self-sufficient business units by converting them first into public enterprises and later into limited companies. Internal chargeable-service providers (in catering, data processing, publishing, etc.) were converted into businesses and outsourced.

## 2 PERFORMANCE MANAGEMENT AND ACCOUNTABILITY IN ADMINISTRATION

### 2.1 Performance management introduced to government agencies

The target of the performance management reform in central government administration started in the late 1980s was to increase the freedom of action and accountability of government agencies and institutions in order to gain better services and more efficient use of resources. In 1988, at the instigation of the Ministry of Finance, three government agencies — the National Board of Patents and Registration, the Finnish National Road Administration and Customs — experimentally introduced a new budgeting procedure known as performance budgeting. In 1990, performance budgeting was applied for the first time in the budget of these piloting agencies. In the following year, the number of agencies using performance budgeting increased to eight. The Government took a decision on performance management reform in central government administration in October 1990. The ministries and the agencies and institutions subordinate to them were required to introduce performance management in the 1995 budget at the latest. The following quotation illustrates the basis for the reform:

“Better service and efficient operation are expected from the public administration. Public services have to be easily available and of high quality. The range of services must match citizens’ needs even as society changes. These reforms cannot be carried out by expanding public expenditure. Because taxation cannot be increased, the use of resources must be intensified. The performance management concept represents a response to the challenges facing the operation of government agencies. In 1988, the Ministry of Finance started a wide reform intended to provide greater potential for government agencies and institutions to improve their services and operational productivity.” (*Tulosohjaus tulee vi-rastoihin*. Ministry of Finance and Administrative Development Agency, 1990)

Performance management has been applied in the central government administration for over a decade now. Its purpose is to make the production of public services and the operation of government agencies more efficient. In the first instance, the reform mainly involved a budget reform. Switching over to a single operating expense appropriation highlighted the operational freedom, economy of operation and accountability of government agencies. Converting the appropriation into a transferable appropriation brought a long-term aspect to operational planning and control. To balance the less restricted use of resources, annual performance targets are agreed with the ministries, and the attainment of targets is monitored and reported on. The reforms that have been implemented have enhanced freedom of action, personnel policy and a customer-oriented approach in government agencies.

The emergence of performance management in Finland in the late 1980s was influenced particularly by performance management reforms implemented in other OECD countries and the views of expert civil servants. Many western industrial countries began to modernize their public sector by introducing the doctrines and management systems of private-sector business management (e.g. Britain and the USA). The aim was to dismantle bureaucratic features and remove ineffectiveness in the administrative organization by increasing market-oriented thinking and by emphasizing the role of citizens as the customers of public services. This was addressed through determined development of administrative practices and public management, by paring down administrative structures and by reducing the number of civil servants. In Finland, the main reform approach in central government administration, supported by Governments in their policy decisions, has been to convert public service functions into public enterprises and to develop performance management and general management practices in government agencies.

The number of personnel in the central government on-budget entities has diminished from a peak of over 215,000 in 1988 to just over 124,000 in 2004. The majority, nearly 90%, of this reduction of 91,000 (42%) was caused by converting government agencies and institutions into public enterprises, companies and local authority agencies. The remaining 10% resulted from actual rationalization and personnel cuts. The clearest example of the impact of creating public enterprises in the various administrative sectors is in the administrative sector of the Ministry of Transport and Communications. Furthermore, the net budgeting which makes it possible to offer services for a fee (chargeable services) is widely used by many central government agencies and institutions.

The information society tends towards the visible and voluminous use of information technology, as witness the development of online services and electronic transactions at government agencies. Every local authority and central government agency has its own website, and an increasingly large percentage of the services is provided in the form of online services (<http://www.suomi.fi/english>). In 2004, central government agencies employed 4,000 full-time IT specialists, measured in person-years. Government agencies had a total of 160,000 computer workstations, of which 16,000 were available for customer use. There were thus 1.3 workstations per civil servant. The government's information management ex-

penditure (including buying of services, salaries of in-house IT personnel and equipment purchases) totalled about EUR 588 million in 2004. There is still considerable potential for improving competitiveness and productivity in public services by introducing new technology and service innovations. Measures to tap this development potential include the productivity action plan, introduced by the Ministry of Finance (<http://soc.kuleuven.be/io/egpa/qual/bern/varjonen.htm>.)

As observed in the Government strategy document, people have started to improve operational productivity in various administrative sectors with productivity programmes which are expected to yield considerable potential for curbing the growth of expenditure and for resource reallocation by the end of the electoral period. *In the national economy framework decision* for 2006-2009, the Government has set the increasing of the operational productivity and efficiency of central government as a target so that by the end of the following electoral period only half of the jobs becoming vacant due to attrition in central government administration will be filled, on average. This translates into a personnel reduction of slightly over 2% over the entire period in question and consequently a similar increase in productivity.

## 2.2 Performance management and accountability reform

Performance management has increased cost awareness in administration and has increased the operational efficiency of government agencies and institutions in many ways. The setting of performance targets has helped in the allocation of resources. The management of government agencies and institutions, their operational control, the quality of their services and their personnel policy have also been developed. Ministries' control practices and forms of co-operation have continued to evolve.

The control system has not always functioned as hoped or as desired. Reports show that the practical functionality of performance management has been hindered by factors such as the following:

- Certain basic problems are cited repeatedly in the criticism of control tools; this has frustrated developers and officials responsible for performance management, because these shortcomings seem to persist in spite of development actions and recommendations.
- The most detailed and the most straightforward applications, particularly in defining targets and measuring outputs, have been regarded as biased and distorting. Performance management is seen to make operations more inflexible, and a strategic development element is missing in the control practices.
- Performance negotiations are just a matter of going through the motions due to a lack of time or not enough leeway in the freedom of action. There is a belittling attitude in ministries regarding performance management, and other tasks have thus been seen as more important.

- Government agencies and administrative sectors have generated numerous reports that have little to do with operational effectiveness or operational performance.

**The State Audit Office** has in its inspection reports repeatedly noted the shortcomings in performance management.

For example, on the basis of the audits for the 2003 budget year, the State Audit Office submitted that there are still major shortcomings as regards economy targets and cost targets in the area of the ministry-approved performance targets for government agencies and institutions referred to in section 11 of the Central Government Budget Decree, which are an essential component in performance management. Only 16% of the agencies had had economy targets or cost targets approved. Productivity targets had been approved for only 9% of the agencies.

In connection with the audits, the ministry-approved service targets were also estimated. Service capacity targets had been set for 42% of the agencies. According to the report submitted to Parliament by the State Audit Office (submitted on 7 September 2004, K 12/2004vp): “For the setting of targets it still seems that the situation regarding the various components of performance management is the worse the more tangible the component. Similarly, the situation is the worse the more the targets and reporting require indicators and measurability.”

*Performance management and performance budgeting form the foundation of the control system and management system of government agencies and institutions.* Shortcomings in the control system have widespread impact. Few people want to return to detailed normative control and item-specific control. Performance management has brought welcome latitude to government agencies in the use of the resources and in their choice of modes of action. Reports show that in many cases operational efficiency has distinctly improved and economy-oriented thinking has increased.

The ministerial working group responsible for the central government administration reform project presented several recommendations for improving the performance management procedure in its final report completed in autumn 2002. These recommendations were based on the reports created in the project and improvement proposals presented by Parliament. **Parliament** has in various contexts called for improvements to the reporting on performance. The completing of annual accounts and annual reports must be brought forward, and their content must be made more concrete.

The reports concerning the state of the performance management system highlighted numerous development needs. The control role and control policy of ministries was found to be generally weak. For performance management to function, ministries should be important and active players as parties to performance agreements and as receivers and handlers of annual accounts and annual reports.

The central government reform project recommended the enhancing of performance management both in terms of content and, especially, by emphasizing the leading role of the ministries. Special attention was given in the recommendations to the clarity and con-

sistency of the information regarding performance targets submitted to Parliament in the budget proposal and the need to keep outcome targets and operational performance targets separate and hierarchically organized.

The memorandum *Towards better accountability*, 2/2003 of the central government final accounts working group presents the working group's proposals for the principles of the central government final accounts reform. The working group proposed quite a wide-ranging reform of the accountability procedures and of the systems to implement them so that the accountability could be improved as required by Parliament. The working group proposed that the central government final accounts and final accounts documentation on the one hand and the report submitted by the Government to Parliament on the management and state of the public finances on the other be combined into a Central Government Final Accounts Report. At the same time, a working group at the Ministry of Finance completed its proposals on practical measures and recommendations from the central government administration ministerial working group for *enhancing performance management* (VM working group memoranda 9/2003). The proposals of these working groups form the basis for the legislative amendments that have subsequently been enacted.

The Government bill to Parliament of 16 September 2003 (HE 56/2003) on the Act amending the Central Government Budget Act contains a wide-ranging development programme to enhance performance management and accountability. The Act amending the Central Government Budget Act (1216/2003) came into force on 1 January 2004. The Decree amending the Central Government Budget Decree (1243/1992), specifying the provisions of the Act, was approved by the Government on 7 April 2004, and the Decree (254/2004) came into force on 15 April 2004. Furthermore, the regulations of the Ministry of Finance on the preparation of operational and financial plans and of budget drafts ('preparation regulations') were revised on 31 March 2004 (TM 0402) to correspond to the budget legislation provisions. The new-format *Central Government Final Accounts Report for 2004* was submitted to Parliament in June 2005.

According to the assessment and statement of assurance of the **Government Controller-General**, the Central Government Final Accounts Report for 2004 gives a true and fair view of the focuses of the central government economy and operations as a whole, and a reasonably true and fair view of the main trends in policy effectiveness. However, sufficient information has not been given on all entities that can be deemed of economic significance. For example, there are shortcomings in the effectiveness data on the government grant system and on EU subsidies and their national component funding. The report does not in all cases indicate whether the financial system has attained the targets set for it and what has been done with the financing.

The Government Controller-General's statement estimates that the quality of the Government's performance reporting concerning the development of policy effectiveness is clearly better in the new Final Accounts Report than in earlier years. The preamble to the statement notes that in Finland the now statutory obligation for giving a true and fair view in the Government's performance reporting is of an exceptionally high quality by in-

ternational standards. This point and the ambiguity of the evaluation concerning the success of the social development policy must be taken into consideration when estimating how true and fair the Final Accounts Report is.

Achieving accountability requires not only clear and realistic target-setting and discussion concerning the genuine scaling of resources but also a thorough evaluation of results and the drawing of accountability-related conclusions. *The operational targets and the scaling of resources must be closely connected.* The targets must be realistic with respect to both resources and scheduling. The monitoring and evaluation of results provide a basis for the necessary conclusions. Only with clear and measurable performance targets can we answer the most important question: Have the performance targets been attained or exceeded, is there cause for rewarding successful operations, or are concrete development and corrective actions needed and possibly sanctions against the persons who are accountable?

In the developing of performance management and accountability, there are two main orientations and points of emphasis:

- *Clarify and enhance the control system and implement genuine accountability, for which the reformed budget legislation gives excellent potential. Apply the main principles of performance management in all the administrative sectors.*
- *Create an immediate link between control on the one hand and decision-making, monitoring and evaluation on the other. Make the contents of control more strategic, diversifying points of view and setting outcome targets and operational performance targets, and connect these closely to the allocation of resources and the presenting of true and fair information in the result reporting.*

In the debate on the contents of performance negotiations and performance agreements, many justifiable development ideas have been presented. The notion of an agreement period longer than one year is already being applied in some functions. For example, the performance agreements between the **Ministry of Education and universities** are made for three years, with only the required adjustments being made annually. This practice has been justified by the fact that significant operational results can only be attained over several years, particularly with reference to outcome targets.

In addition to the time span, performance agreements have been criticised for a lack of strategic approach. Government agencies and institutions feel that it has not been possible to deal with operational development and reorientation needs in the agreement negotiations. Strategic policies and change targets must therefore be included in the agreements.

It has also been noted in the criticism of performance management that performance targets defined strictly by performance area (known as ‘performance channels’) reinforce a task-oriented approach and prevent co-operation between divisions. The performance targets need to include targets concerning horizontal co-operation. This is already the case in some performance agreements. The co-operation targets can also be under-



stood as operational quality targets, which can apply, for example, to improving the service capacity of government agencies through increased co-operation. Requirements for cross-sectoral co-operation are essential in all fields and at all levels of administration. Thus, in performance management too, attention must be paid to improving co-operation. For example, more ministries can have shared outcome targets set by the Government, and shared performance targets can be set for government agencies and institutions in performance agreements.

## 2.3 Enhancing ministry control

The main objective identified in the reports of the central government administration reform project and the recommendations of the ministerial working group based on these was the focusing of ministries on the preparation of political decision-making and on managing strategic control in their respective operational branches. Attaining this target state requires the delegation of operational duties from ministries to subordinate agencies.

The principle of separating strategic control and operational duties is observed poorly or inadequately in several administrative sectors. The ministry roles of controller and actor are often confused in a way that significantly undermines the clear and efficient setting of performance targets and reporting on them.

The responsibility of ministries as the controllers of their respective administrative sectors and policy sectors on the one hand and as the implementors of accountability on the other has been emphasized in the budget legislation provisions. The ministries must evaluate the annual accounts and auditors' reports of their financially accountable subordinate units and release a well-justified public statement on them. This statement must address the question of whether the annual accounts under review give a true and fair view of economy and performance, whether performance targets have been attained, and what measures should be undertaken on the basis of this and of other evaluations in the performance-responsible agencies and institutions and in the ministry itself.

The new-format annual accounts reporting and accountability procedure will be applied from the 2005 budget year. The responsibility of management for internal control has been increased at all levels of the administration. In connection with the annual accounts, the management of government agencies and institutions must issue an assessment and statement of assurance on whether internal control as referred to in the Central Government Budget Act has been sufficient and appropriate, and what important development needs there are in this respect.

For example, **the Ministry of Justice** has considered that an important problem in performance management is that the attainment of targets is neither evaluated nor analysed sufficiently, as a result of which the targets may remain unclear and the evaluation of their attainment defective. Due to the special structural characteristics of the administrative sector of the Ministry of Justice, attainment of the budget legislation targets requires



special solutions especially with regard to the courts, the execution authorities and legal aid, which comprise many small agencies. In October 2003, the Ministry of Justice appointed strategic teams in legal policy, criminal policy, delinquent payment policy, and EU policy and other international co-operation, to support and promote the implementation of the strategies of the Government Programme and legal policy. The strategy teams do preparatory work on operational policy programmes, the targets and premises of spending limits proposals and budget drafts and also promote harmonization of measures between departments. Furthermore, the strategy teams participate in the developing of evaluation criteria concerning the attainment of performance targets and in the analysis of changes in the government agencies in their respective administrative sectors and of changes in the operating environment. The work of the strategy teams has been used, for instance, in the preparation of the central government budget and in the preparation of operational and financial plans (*Oikeusministeriö. Toiminta ja hallinto 2004:15* ).

The main aim in the central government administration reform has been to improve Government work and *programme management* across administrative sectors. Harmonization through all ministries and administrative sectors is particularly important in planning social development policy measures and in setting outcome targets. Any thematic entity included in a policy programme should be unambiguously horizontal and require monitoring by the entire Government. It should produce significant added value for the implementation of the Government Programme and should have clear and measurable impacts and targets. Evaluations of what results and societal impacts are achieved through policy programmes are crucial for programme management <http://soc.kuleuven.be/io/egpa/qual/bern/kekkonen.htm>

The introduction of the Government Strategy Document and policy programmes forms part of the programme management model to reform implementation of the Government Programme and target monitoring. With the strategy document, the Government estimates the efficiency and effectiveness of measures and of the use of resources. The targets of the document and the allocation of resources are pursued in connection with the central government spending limits procedure and the budgetary procedure.

The Government strategy document is the Government's annual plan in which outcome targets on policy programmes and other issues important for the Government are presented. The idea is for the document to contain the most important cross-sectoral matters in which the Government will be taking significant decisions and measures, to be monitored at Government level. Spring 2005 saw the completion of the first effectiveness evaluation covering the entire Government Strategy Document.

The development of *ministry strategy work and performance management* can be summarized thus:

- Various performance management models are in use, depending on the administrative sector and its administrative practice, and their control impact and how advanced they are vary considerably. In some administrative sectors, performance management is an advanced control tool, while in others commitment to performance management is low

and development work is only just beginning. Performance-related practices and management practices also vary greatly from one agency to another.

- Performance management problems and development needs have mainly been identified, and they have been taken into consideration in the performance management and accountability reform and in changes to the budget legislation. The main aim has been to enhance performance management by emphasising the controlling task and accountability of ministries. The content of control has been diversified, and a clearer distinction has been made between strategic outcome targets and operational performance targets.
- The ministries are responsible for the functionality of performance management and for control development within their respective operational branches. The basic tasks of ministries are emphasized: preparation for political decision-making, strategic control of their operational branches and international influence, especially in EU matters. The challenges are to ensure a high standard of quality in drafting legislation, to investigate the societal, economic and other impacts of legislation, to enhance performance management and other strategic control, and to influence EU legislation early enough and substantially enough. This requires ministries to cut down on operational executive tasks, among other things.
- The policy programmes which are based on the Government Programme and on the Government Strategy Document bring to the line administration and to performance management new elements which require closer co-operation between ministries and the development of working and control procedures. This applies especially to the setting of outcome targets and to the evaluation of their implementation.

## 3 PERFORMANCE TARGETS AND BASIC PERFORMANCE CRITERIA

### 3.1 General requirements for performance targets

Many general requirements can be set for performance targets. Good performance targets are:

- connected with and derived from the basic tasks of a government agency or operational entity (not random or individual);
- strategic, essential from the point of view of operations and effective;
- clear, understandable to everybody;
- concrete, operational (practical from the point of view of monitoring);
- evaluable, measurable and time-dependent;
- preferably comparable (over time on the one hand and between similar units on the other);
- such that the government agency itself can influence them;
- realistic but challenging;
- acceptable (jointly outlined and agreed);
- such that they cover as large a part of the operations as possible while on the other hand determining priorities.

The implementation of the last point, for example, requires that the targets are hierarchically arranged and show scope and priority (cf. separation into targets and means) and that there is a manageable number of them. The measurability requirement refers in practice to proportional measurement, which means that performance targets indicate not only the direction of the change but also how substantial it should be. For example, a target can state this: “Customer satisfaction will be improved so that 80% of the customers will be fairly or extremely satisfied with the services they receive.”

To keep performance targets relevant and manageable, it is essential to set prefer-

ably a small number rather than a large number of them. Good performance targets illustrate the result, not the work involved or the measures undertaken. They depict states, not aims. In some organizations, outputs can be used to describe results. For example, in agreements for research institutions consensus must be reached on what kind of research the institution will undertake during the year or what stage should be attained by the end of the year in research projects lasting more than one year. Even here, the aim should be to set qualitative targets (e.g. involving the applicability and use of results) for the major projects and to use project monitoring data efficiently.

*Performance targets should be realistic but challenging.* A good principle is to give a comparative basis for the target level in the agreement. Is the performance target for the following year more demanding than the one for the previous year, or has it been necessary to lower the target level? The performance negotiation documents can also detail the outcome of the previous year and an estimate of the current year's targets and whether they will be attained. It will then be easier to compare future targets with earlier targets and outcomes.

## 3.2 Basic performance criteria

The basic performance criteria which are used in the setting of performance targets and in the reporting on performance consist of *policy effectiveness and operational performance*. Operational performance factors include operational efficiency, outputs and quality management, and management of human resources. *Operational performance targets* emphasize how the agency's own efforts contribute to results. They are derived from the operations of the agency and emphasize those performance factors the agency can immediately influence through its operations and management practices. Policy effectiveness targets, or *outcome targets*, are often indirect with respect to the operations of the agency and thus more difficult to verify. Attaining an outcome target often requires parallel targets for other actors, in which case the societal impacts of an agency or institution apply only to its own operations.

The underlying distinction between outcome targets (outcomes) and operational performance targets (outputs) is one of the key concepts in performance management as a whole. Operational performance targets guide the concrete and immediate things (goods and services) that an agency produces. These include degrees completed, permit decisions taken, patent applications processed, monitoring inspections carried out, etc. Outcome targets, on the other hand, apply to broader benefits or societal impacts affecting the agency's customers or the public at large, such as the placement of graduates in working life, the success of companies that have registered patents, the functioning of the market, the prevention of exclusion or similar targets. In other words, they reflect how an agency's operations generate broader public goods.

In addition to the positive societal impacts aimed at in performance management, it is also necessary to consider *unintended impacts* (side effects or injurious effects). It may be justified to set targets for unintended impacts too, in order to minimize them. For example, the granting of company support should not lead to market distortion or to a weakening of initiative in companies receiving support.

The *basic criteria* concerning policy effectiveness and operational performance have been defined as follows in the performance management and accountability project:

1) *Policy effectiveness* describes the targets of the operational policy (outcome targets), to what extent they have been attained and their costs. It describes the effects of operations and measures on relatively broad thematic entities, such as the societal impacts of an operational branch, a policy sector or an agency. It also describes the extent to which the targets of operational policy have been attained and how cost-efficiently this has been achieved. Outcome targets include the employment target, sustainable economic and fiscal policy, or efficient and high-quality public health care. An outcome target can be relatively easy to measure and verify: for example, the reduction of road accident casualties to under 250 persons by the year 2010. The employment target set by the Government has also been defined so as to be measurable, using indicators.

Outcome targets direct the setting of the operational performance targets of agencies and institutions. It has often been considered unrealistic to set an outcome target for an individual agency, because a single agency has only limited influence. Agencies and institutions can influence policy effectiveness only in their own respective sectors, and they cannot be held accountable with regard to the attainment of social development policy targets set by the Government, for instance. The accountability of the Government and of the ministries, on the other hand, lies largely in policy effectiveness. For example, the policy effectiveness of the administrative sector of the **Ministry of Defence** refers to those measures of the defence administration through which the administrative sector contributes to securing the vital functions of society. Policy effectiveness too can be evaluated and verified with the help of various indicators.

2) *Operational performance*, on the other hand, consists of targets on which the agency or institution can have an immediate impact through its own operations and management practices. Operational performance factors can be analysed as follows:

- *Operational efficiency*, which includes the economy and productivity of operations and the profitability of chargeable service activities;
- *Outputs and quality management*, which include, among other things, the volume of outputs produced, and the service capacity and quality of the operations;
- *Management and development of human resources*, which includes, among other things, information on staff numbers and staff structure, staff expenses, wellbeing at work, competence, other intangible assets and operational reform.

What is essential in these performance criteria (policy effectiveness, operational efficiency, outputs and quality management, and management of human resources) is that *per-*

*formance consists of the interaction of different factors.* In a well-functioning performance management system, indicators are also used as an aid in all areas of performance. The above basic performance criteria form the basis for setting performance targets, for performance reporting by agencies and for the Central Government Final Accounts Report submitted to Parliament. The figure above outlines the basic performance criteria.

The starting point for performance management is that the performance targets of an agency or institution emphasize matters concerning the economy and productivity of its operations, its quality and service capacity, and other matters involving immediate impact. Outcome targets also guide the setting of performance targets for agencies. The Government may make choices regarding extensive sets of measures, thus influencing the societal, economic and cultural development of society as a whole. Such extensive chains of effect can be broken down into factors clearly linked to the services or outputs of specific agencies or institutions. In these cases, it is logical to apply outcome targets to agency-specific performance targets. For example, universities have a statutory societal service function in addition to their teaching and research functions. Joint regional strategies have been employed to reinforce the regional effects of university education and research. The societal impacts of an agency or institution may involve, for instance, immediate customer effects or indirect or regional effects of the administrative sector as a whole.

<http://virtual.vtt.fi/inf/pdf/publications/2005/P589.pdf>

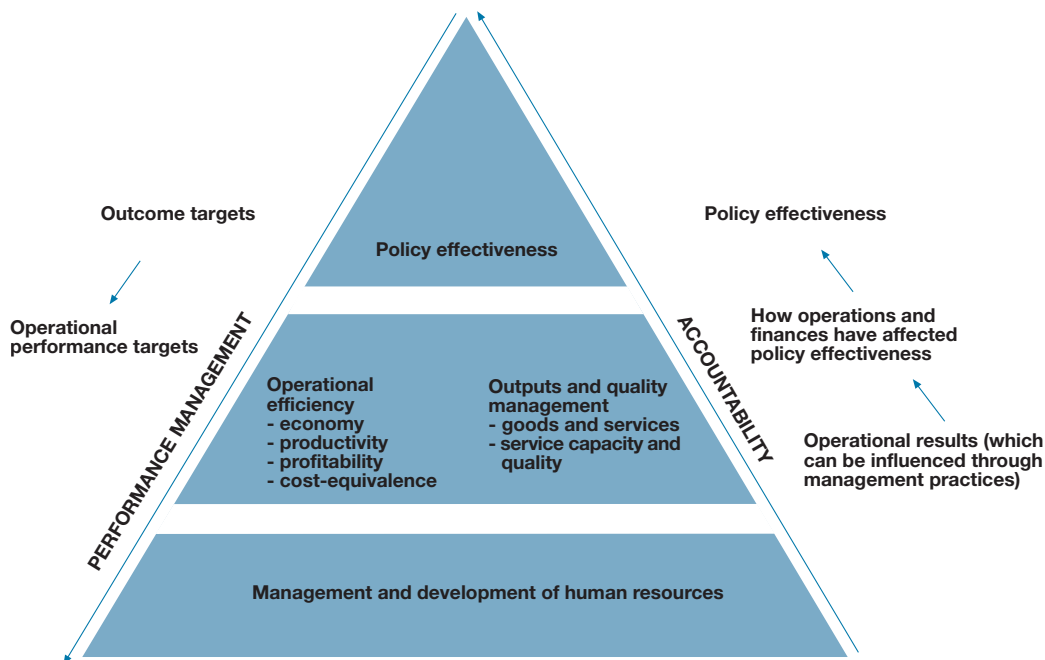


Figure. Basic performance criteria (true and fair information)

To sum up the *performance targets and presentation of results* for ministries and other government agencies and institutions:

- Ministries are responsible for the performance of their respective operational branches. Proper performance management includes the ministries ensuring that proper performance targets are set (also regarding their own operations) and the agencies presenting true and fair information on their operations in their annual accounts. The budget legislation provisions and the accountability based on them apply to ministries and other agencies alike. Social impacts and outcome targets are emphasized in the performance targets of ministries.
- Operational performance targets are emphasized in the performance targets of other agencies and institutions. Care should be exercised in setting outcome targets as performance targets for individual agencies and institutions. At the same time, it should be remembered that the principal concept of performance management is the responsibility for generating added value for the agency's customers and for society as a whole, and that merely doing things or producing outputs as such is not enough to constitute performance.
- The targets should be connected with operations and resources as closely as possible, whereby their attainment depends directly on what the agency or institution does and how it is managed. Alongside positive performance targets and outcome targets, targets concerning unintended effects or side effects should also be set.
- Performance targets are set primarily as indicators and only secondarily as verbal targets. How performance targets are formulated in the central government budget is particularly important for the functioning of the control system as a whole. Performance management requires that when a proposal for an appropriation is submitted to Parliament, it includes true and fair information regarding the performance targets to be attained with that appropriation.
- The Central Government Final Accounts Report is an instrument of the accountability of the Government and ministries to Parliament and the public concerning national financial administration, the effectiveness of social development policy and the performance of the administration. Under section 17 of the Central Government Budget Act, the Central Government Final Accounts Report shall include the Central Government Financial Statements and all necessary other information on management of the central government finances and compliance with the central government budget, together with information on the most important factors in terms of trends in the policy effectiveness and operational performance of the central government's activities, and the most important information on trends in policy effectiveness and operational performance in the sectors covered by the various ministries.

### 3 Performance targets...

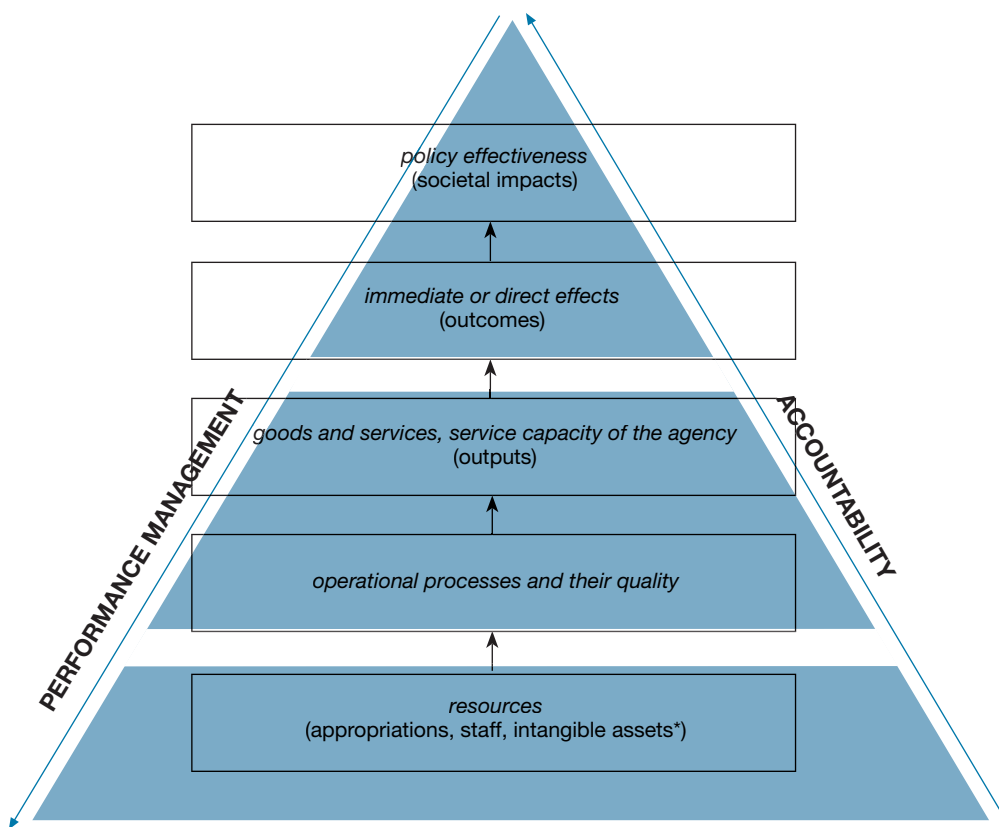


Figure. Model of the effect chain of the operations of government agencies.

\* The tax administration will carry out the Aineeton pääoma (Intangible assets) project in co-operation with Tampere University of Technology during the year 2005. Its purpose is to study in selected pilot units what intangible assets consist of, what special features they embody and which areas are the most important for them. The purpose of the project is to gain tools and methods for measuring and developing intangible assets. The project is connected with developing indicators for human resource accounts in the tax administration as a part of the management and development of human resources.



## 4 PRESENTING PERFORMANCE TARGETS IN THE BUDGET AND IN THE OPERATIONAL AND FINANCIAL PLAN

*Central Government Budget Decree, section 1b section (7.4.2004/254)*

*Budget proposals shall comprise proposals for appropriations and revenue estimates, reasons for the appropriations, and other justifications intended to represent the views of Parliament and justifications in the explanatory parts of the Budget Proposal to be submitted to Parliament.*

*Budget proposals shall comprise:*

*1) proposals for targets set by the Government to be included in the explanatory parts of the Budget Proposal for the effectiveness of Central Government activities and finances in the policy sector of the ministry in question;*

*2) the ministry's tentative performance targets for effectiveness of Central Government activities and financing in its policy sector;*

*3) the ministry's tentative performance targets for the most significant elements of operating performance of the most important government agencies in the administrative sector of the ministry.*

*In order to provide for justifications for proposals concerning appropriations, revenue estimates and other parts of the budget intended to become decisions of Parliament, performance targets concerning operational performance are itemized as stated in section 65 into targets concerning operational efficiency, outputs and quality management, and, if necessary, management and development of human resources. Whenever possible, indicators are used in presenting the performance targets, and the indicators are supplemented with qualitative targets as required.*

*Proposals for spending limits in central government finances including the grounds for them and budget proposals including the justifications for them must be drawn up in compliance with the deadlines and other regulations set by the Government and the Ministry of Finance.*

### 4.1 Performance budgeting and accountability

Preparation of the central government budget is subject to *ex ante* and *ex post facto* accountability. Ex ante accountability refers to the justification obligation. In other words, appropriations to be drafted and proposed for the budget must be justified with intended effects, i.e. a clear and comprehensible presentation of outcome targets and operational performance targets. The justification obligation also means that economically significant financial systems (such as transfers) and their societal significance (effectiveness) must be briefly and intelligibly described in the justifications for the budget proposal.

The budget proposal also forms the foundation for ex post facto accountability. In the Central Government Final Accounts Report, the Government is obliged according to sections 17 and 18 of the Central Government Budget Act to give a true and fair view of the development of policy effectiveness and an outline of operational performance by administrative sector. The information must be presented so that actual outcomes are compared with the outcome targets and preliminary operational performance targets in the budget proposal. The explanation and context of the main titles and classes of the budget are important sources of performance information.

### 4.2 Performance management and developing the structure of the budget

In developing performance management and the structure of the budget, the starting point is that the structure of the budget and the content of its explanation and context are developed in ways that are clear and justified with regard to the *budgetary authority of Parliament* and the control function of the Government. In the performance management and accountability project run by the Ministry of Finance, the structure of the budget was examined with a particular view to the smooth running of performance management.

The justifications of the budget proposal and their indicators should give a true and fair view of the uses and targets of appropriations. Moving to a budget class structure organized according to policy sectors or other clearly defined operational and financial entities — instead of the current, largely agency-specific structure — would make performance management work better. In particular, this could promote the hierarchical and organized presentation of outcome targets and operational performance targets in the budget document, which was recommended in the performance management and accountability project.

Policy-sector outcome targets form the basis for the structure and target presentation of the operational and financial plans of the various administrative sectors. Under section 10 of the Central Government Budget Decree, the operational and financial plan for the administrative sector of the ministry comprises plans for the strategies and most important targets, including indicators, concerning the main lines of the policies of the Government and of the ministry and its administrative sector. The purpose of this provision is that the content of the operational and financial plan and the outcome targets in it have a clear relationship with the structure of the budget.

The difference between outcome targets on the one hand and operational performance targets concerning outputs on the other has been emphasized in the performance management reform. The latter are tangible targets concerning immediate outputs, whereas outcome targets concern broader benefits achieved for the customers of the agency or changes effected in society as a whole. In other words, they concern the emergence of societal impacts and indirect benefits. The accountability of the Government and ministries is weighted towards policy effectiveness, and the relevant targets are presented in the budget.

Setting an outcome target for an individual agency has often been considered unrealistically broad or difficult to measure. One way of balancing the disparity between outcome targets and agency-specific performance targets is to set an outcome target simultaneously for several agencies in the explanation and context of a budget class.

*Budget classes can be collated to cover a broader operational branch, policy sector or other obvious operational and functional entity.* Such structural revision can help present broader outcome targets that apply to the operational branches and policy sectors of several ministries. This is the case for instance in the budget title of the administrative branch of the Ministry of Trade and Industry, where budget title 32 is divided into classes thus:

- 32.10. Administration
- 32.20. Technology policy and innovation policy
- 32.30. Company policy
- 32.40. Consumer policy and competition policy
- 32.50. Internationalization policy
- 32.60. Energy policy
- 32.70. Ownership policy

For example, class 32.20 details outcome targets for technology policy and innovation policy that apply to the entire sector. In addition, agency-specific performance targets are set on the item level for agencies and institutions covered in the technology policy and innovation policy class.

The outcome targets set by the Government and formulated by the ministries for themselves guide the setting of performance targets for agencies and institutions. Out-

come targets are particularly suitable for broad administrative branches and policy sectors, while operational performance targets are appropriate for individual agencies and institutions. The performance targets for agencies and institutions focus on economy and efficiency, outputs and their quality, service capacity, and other matters with immediate impact.

### 4.3 Presenting performance targets at the level of main title, class and item

The central government budget proposal is a proposition for the financing plan for central government finances, which is submitted to Parliament. *The outcome targets and performance targets in the budget proposal are there to justify the appropriations that are included.* Unlike the operational and financial plans of administrative sectors or the Government strategy document, the budget proposal is not a general strategy document. The effectiveness and performance targets included in the budget proposal must be clearly connected with the appropriations included in the proposal. How to formulate performance targets in the central government budget proposal is therefore a highly important issue for the functioning and comprehensibility of the control system. Parliament has frequently expressed a desire for performance targets based on simple indicators. Using indicators as far as possible for presenting outcome targets and operational performance targets is a guiding principle in budget legislation, too.

In the budget proposal, justifications are presented at the main title level, the class level and the item level. Main titles equate to entire administrative sectors and operational branches. The detailed statements for main titles therefore contain rather general or wide-ranging outcome targets. Outcome targets are set for all policy sectors and for major duty areas or performance areas. They are concise descriptions of the main policies and operational emphases of the Government and the ministry.

Targets included in ministry strategy documents and in the operational and financial plan of the administrative sector must agree with the targets in the budget proposal. It is imperative for the uninterrupted running of performance management that the targets presented at various levels in the budget proposal are logically related and that their relationship is easy to understand (*coherence of lower-level and higher-level targets*).

When this is the case, the more practical operational performance targets can be seen as agency-specific targets, while the broader outcome targets apply to the entire administrative sector or policy sector. It is also important to *assign accountability* for the targets and their attainment at various levels of administration, for instance to a ministry or an agency.

Targets applying to an entire administrative sector or its task areas are included in the ministry strategy documents and operational and financial plans. These usually span sev-

eral years, and as such are not sufficient as justifications for budget appropriations. They do, however, provide a good foundation for the defining of annual performance targets.

Information on earlier performance is required for the setting of performance targets. In outcome targets in particular, a long-term approach is sought with regard to the main title and also with regard to significant operating costs. Thus, in order to appreciate the target level, information is needed on earlier target levels. If, for instance, the target is to raise the average retirement age by one year, it is worthwhile knowing whether the trend has been for the average retirement age to increase or decrease in recent years; or, if the target is to reclassify 250 km of roads from class II to class I in winter maintenance, Parliament needs to know how well class I roads have been maintained on earlier appropriations; or, if the target is to increase the number of training completions by 10%, evaluators need to know how the number of training completions has been behaving in earlier years.

To sum up the *setting of performance targets and their presentation in the central government budget*:

- The budget measures operations against available financial resources. In performance-oriented budgeting, performance targets and performance information are employed as justification for the preliminary decisions on outcome targets and operational performance targets taken when drawing up the budget proposal.
- The justifications in the budget proposal (explanation and context) and their indicators should give a true and fair view of the uses and targets of appropriations. Special attention must be paid to the presenting of clear outcome targets and their costs. The class structure and item structure of the budget proposal should be organized according to clearly defined entities: by policy sector or by major operational and financial entity.
- An important budget development point is the presentation of outcome targets describing ministry accountability in the justifications for classes within the main title for each ministry. Budget classes need to be collated into larger entities constituting an administrative sector or policy sector for which an outcome target can be set. Outcome targets guide the presentation of operational performance targets for agencies and institutions. The latter are principally presented as justifications on the level of budget items.
- Performance targets should be given only to a few essential targets; this will limit their number. In the Central Government Final Accounts Report, the targets of the budget proposal are compared with the actual outcomes, and the justifications of the former thus provide a basis for later reporting. The aim is to focus on things with significant societal impact, and the purpose of the justifications is to provide a basis for decision-making and for monitoring performance.

## 4.4 Preparation of an operational and financial plan and spending limits proposal

The basic requirements concerning the contents of the operational and financial plan of an administrative sector are given in section 12 of the Central Government Budget Act and sections 8 to 10 of the Central Government Budget Decree; the content of the plan is detailed particularly in section 9 subsections 2 to 4 and section 10 of the Decree.

### *Central Government Budget Act, section 12 (19.12.2003/1216)*

#### *Operational and financial planning*

Government agencies shall plan their operations and finances, and their performance, several years ahead. Ministries shall plan the effectiveness of operations and operational performance in their sector several years ahead.

### *Central Government Budget Decree, section 8 (7.4.2004/254)*

*The purpose of operational and financial planning is:*

- 1) to support the performance in government activities and finances;*
- 2) to provide grounds for preparation of the framework for central government finances and for the annual central government budget;*
- 3) to provide grounds for effectiveness in the policy sectors of the ministries and in the managing and steering of government agencies and likewise in setting performance targets.*

### *Central Government Budget Decree, section 9 (7.4.2004/254)*

*In addition to central government operational and financial planning, the multi-annual operational and financial planning comprises operational and financial planning for the administrative sectors and for the government agencies. In addition to targets concerning the future, information on the outturn of implementation and final accounts and the analyses concerning them, and likewise assessments of effects and performance made at stated times must be taken into account in the operational and financial planning.*

*As a result of operational and financial planning, government agencies prepare their own operational and financial plans and submit them to the ministries as required by the ministry in question.*

*The ministry annually prepares an operational and financial plan for its administrative sector based on the strategies for central government finances and operating policy approved by the Government for the period covered by the operational and financial plan and taking into account the plans of the government agencies referred to in subsec-*

*tion 3. The ministry shall submit the operational and financial plan for its administrative sector to the Ministry of Finance.*

### **Central Government Budget Decree, section 10 (7.4.2004/254)**

*Proposals for the key operational strategies and multi-annual performance targets are included in the operational and financial plans.*

*The operational and financial plan for the administrative sector of the ministry comprises plans for the strategies and most important targets, including indicators, concerning the main lines of the policies of the Government and of the ministry and its administrative sector.*

*The operational and financial plans are prepared in compliance with the regulations issued by the Government and the Ministry of Finance.*

### **Observations of the Government Controller-General concerning operational and financial plans**

The Government financial controller's function housed in the Ministry of Finance supports the preparation of the Government's spending limits decision and the development of ministry strategic control by issuing statements and feedback to the relevant ministry concerning the operating and financial plan and the spending limits proposals for a particular administrative sector. The statement is also available to the Budget Department of the Ministry of Finance and the management of the relevant ministry for use in the preparation of the spending limits decision and future budget proposals. Issuing such statements and feedback forms part of the statutory duties of the Government financial controller's function to provide advice and observations, and suggestions for action based on said observations, thereby ensuring and promoting the smooth functioning of guidance and reporting systems and procedures for central government finances and operations in a suitable and efficient way.

The Government financial controller's function examines the operational and financial plans mainly from the following aspects, which can be applied by the administrative sectors in their own evaluations, too:

- Is the operational and financial plan of the administrative sector a genuine, strategic control tool in the operations of the administrative sector and of the ministry, or is it mainly just an explanatory memorandum for proposed additional expenditure, or a document drawn up purely as a formality?
- Does the plan contain the following, as per section 12 of the Central Government Budget Act and sections 8 to 10 of the Central Government Budget Decree (1243/1992, as amended 254/2004):
  - clearly defined, essential and strategic outcome targets for the planning period;
  - clearly defined, essential and strategic major operational performance targets for the operations of the administrative sector?

- Are the outcome targets and the operational performance targets realistic compared with available resources and the proposals concerning them and with the present state of and earlier trends in performance?
- Have the outcome targets and the operational performance targets been linked to the examination of appropriations and human resources in an open and intelligible way (performance budgeting)?
- Have the increasing productivity of the public sector and the major challenges of the next few years (raising the employment rate, improving technological competitiveness, combating the ageing of the population and concomitant structural changes), which the Government has defined as principal horizontal goals, been taken into account on an appropriate scale and in an appropriate way?
- Has the operational and financial plan been drawn up in accordance with, on the one hand, the provisions of the Central Government Budget Decree concerning the drawing up of operational and financial plans and of spending limits proposals, and, on the other, the regulations of the Ministry of Finance concerning the drawing up of operational and financial plans? If necessary, needs for interpreting and improving legislation, the drawing-up provisions and instructions for interpreting same will be identified.



## 5 CONTENT AND TARGETS OF PERFORMANCE AGREEMENTS

### 5.1. About the nature of performance agreements

Ever since performance management was first introduced, the legal status and binding nature of performance agreements has been subject to debate. The general interpretation is that these agreements are not legally binding, i.e. obligations and sanctions under contract law do not apply to them. There has also been discussion about whether a ministry has any jurisdiction at all in exercising control through performance management over an independent agency which has statutory duties and whose funding is granted by Parliament in the central government budget. Indeed, performance management cannot bypass or alter statutory duties; instead, such duties form the basis of both performance management and performance agreements. *The guiding principle in applying performance management is to carry out the statutory duties of public bodies as efficiently and effectively as possible.*

The performance agreement is a control tool whose use is based on a new kind of co-operation between a ministry and an agency. Although the agreement embodies no legal consequences, it does embody practical consequences related to the content of this co-operation. The fact that a performance agreement is not legally binding has not been considered a problem in performance management in practice.

Other types of document have been used alongside performance agreements. For example, letters of guidance from the ministry have been employed in some administrative sectors. These are tantamount to unilateral decisions made by the ministry or to instructions issued to agencies or institutions. They do not include the approval and signature of the other party. In some cases, nothing but a protocol of the performance negotiations has been drawn up, detailing the progress of the talks. The signatures on this protocol simply confirm the content of the negotiation, and as such the protocol does not constitute an agreement on the agency's performance targets or resources.

The formal status of any document drawn up in the performance negotiations does not necessarily have any bearing on how efficient the performance management itself is. *It is recommended, however, that a clear agreement is drawn up in all cases.* This would show that the parties have arrived at an agreed result and consensus in their talks. Both parties sign the agreement, and it thus constitutes an obligation on both parties. The essential thing is that the parties sit down together and consider what needs to be entered in the agreement and how the fulfilment of the agreement will be monitored and evaluated.

### 5.2 Strategic targets and annual performance targets

One of the problems identified in performance management is the shortness of its time span and the lack of a strategic approach. Performance targets spanning a single year are not necessarily the most important with a view to long-term success. Significant developments rarely occur in the course of one year as regards broader outcome targets. Focusing on the annual perspective, targets may tend to get defined for matters in which results are easy to demonstrate; on the other hand, annual targets tend to get linked to existing indicators. This means that negotiations will only be about at what level the indicator should be set rather than discussing *whether the targets have been set for the most important things, and whether it is the right things that are being measured.*

The lack of a strategic approach is also evident in the negotiations becoming narrower in scope and a matter of routine. In recent years, ministries have been enhancing strategic planning in their operational branches and their organizations, drawing up not only sector-specific strategies but also documents on the outlines and points of emphasis in the ministry's administrative sector in general and in the ministry itself in particular. The implementation of these strategies serves to lend a long-term approach to performance management too. As a result, ministries must consider each year how the above outlines should be manifested in the performance targets of agencies and institutions so that their operations would contribute to the attainment of the strategic targets of the operational branch as a whole.

At least the following options or complementary approaches are available to improve the strategic approach:

- turn the preparation of the operational and financial plan for the administrative sector into an interactive discussion process to support the drawing up of performance agreements;
- in performance negotiations, do not define performance targets before discussing strategic challenges, shifts in focus and how operations should be developed;
- include strategic and long-term targets in performance agreements.

For example, the performance agreements of **universities** have for some time now been

drawn up as three-year agreements. Only necessary revisions are made in the intermediate years. The monitoring also runs on a three-year cycle, with only brief checks in the intermediate years to ensure that things are progressing in the right direction.

When performance targets are set for a period longer than a year, their attainment must be paced: in other words, what the attainment for the first year should be must be defined. The performance targets for universities are properly defined for three years, but each year, at the very least, the measures necessary for attaining the long-term targets are agreed on. The purpose of this procedure is to ensure a long-term approach and the commitment of the agreement parties to the attainment of strategic targets.

<http://www.minedu.fi/julkaisut/koulutus/2004/opm20/opm20.pdf>

Long-term targets and annual targets supporting them are likewise entered in the performance agreement of the **Safety Technology Authority**. Under the general performance targets there is a group of ‘operational targets’ designed to help attain the performance targets. These could also be defined as tools for attaining the broader targets. Similarly, the agreement may specify performance targets along with the tools and measures required to attain them.

Neither the performance management concept adopted in central government administration nor the budget legislation provisions specify what kind of management methods or models should be employed to attain performance targets. In addition to various management models, various management tools and evaluation methods have made inroads into administration (e.g. BSC, EFQM, CAF, CobiT, COSOERM, etc.). Here, too, the guiding principle is that each agency and institution should choose the management and evaluation methods that suit them best.

At the moment, the *BSC model* (Balanced Scorecard) in its various applications is a relatively common method used in drawing up and describing strategies. In this model, strategic targets and evaluation criteria are usually organized under four main perspectives (effectiveness [customers], finances [resources], structures [processes], renewal and working capacity [personnel]). The strategic target state and orientation are described from the different perspectives in the BSC model. The perspectives focus on different things whose success or failure will have a crucial effect on the success of the organization. Indicators are derived from ‘critical success factors’. The purpose of defining evaluation criteria is to find an indicator or procedure that best measures the success of the organization with regard to a particular critical success factor. The target set for an evaluation criterion may be a verbal description or a measurement against which the progress of the strategy is compared. The BSC model focuses on cause and effect, which can be rendered into tangible form in ‘strategy maps’. There are many points of convergence between the BSC model and the basic performance criteria in the ‘performance prism’ employed in this book (policy effectiveness, operational efficiency, outputs and quality management, and management of human resources). Both models emphasize the overall evaluation of performance, a balancing of performance targets and viewpoints, and the use of indicators or evaluation criteria for monitoring and reporting.

For example, in the instructions for the preparation of performance agreements at the **Ministry of Social Affairs and Health** for 2004-2007, the structure of the BSC model is applied to performance targets and evaluation criteria. Critical success factors are identified for each of the four perspectives, together with more detailed, institution-specific indicators. There are six success factors in policy effectiveness listed in the instructions: 1. Promotion of health and functional capacity; 2. Increasing the attractiveness of working life; 3. Prevention and treatment of exclusion; 4. Functioning services and reasonable income security; 5. Welfare of families with children; and 6. Equality between men and women. Outcome targets are set for each success factor, together with general indicators to be followed. Furthermore, monitoring indicators have been determined for monitoring the most significant projects and programmes.

### 5.3 Content and structure of performance agreements

It is generally accepted that performance targets do not need to cover the entire range of operations; instead, the performance agreement can focus on the most important points and the results of the budget year. However, the guiding principle is that *performance targets apply to both the agency's basic operations and its development measures*. Agreements may define both changing, situation-specific targets and permanent targets.

Targets based on permanent indicators guarantee that the agency's basic tasks are carried out at a high level of quality while new things are being planned and development projects are being carried out. Development targets are dynamic and must be included in agreements. At the same time, it is important to ensure that not all resources are assigned to development but that the agency's basic tasks are managed efficiently and at a high level of quality. Therefore, a performance agreement cannot concentrate on strategic outlines; it must also address the continuous improvement of basic tasks.

The structure of the performance agreements can in principle be quite variable. The main thing is for the structure to be logical and comprehensive. It is only natural that performance agreements be structured according to the strategy of their respective administrative sectors. The agreement should thus include not only the general targets of the administrative sector but also the main points of focus of the institution over several years; these must agree with the strategies outlined by the ministry. Addressing a period of longer than a year helps lay the groundwork for determining performance targets for successive years.

Thus, the main points related to performance criteria and targets applying to different timescales may be identified in the structure of a performance agreement. The latter include any development targets. Depending on how the agreement is laid out, the more general performance targets can be further broken down into more tangible operational targets:

| Long term performance targets and performance criteria        |   | Annual performance targets and performance criteria   |  |
|---|---|---|--|
| Basic perspectives of performance targets:                    | Long-term (3-4 years) strategic targets, emphasising change / dynamic evaluation criteria | Permanent long-term targets emphasising uninterrupted operation / permanent evaluation criteria | Annually changing performance targets and measures supporting the concrete 'permanent' targets |
| Effectiveness (immediate and indirect impacts)                |   |   |  |
| Outputs and quality management (service capacity)             |   |   |  |
| Economy and productivity of the use of resources (efficiency) |   |   |  |
| Human resources, competence and renewal                       |   |   |  |

This table shows the use of different kinds of performance targets and a general organization of performance management. It is worth bearing in mind when negotiating an agreement that strategic, long-term targets concerning changes in operations should also be discussed, but that the continuity of basic tasks and their indicators should be remembered. An annual target value can be assigned to the indicators or criteria depicting long-term outcome targets. Annual targets can support the change envisaged in the strategy and the further development of basic services. Thus, both dynamic targets and permanent targets (where only the target levels of the indicators change) are needed.

## 5.4 Standard model for performance negotiations and agreements

A standard model illustrating the content of performance negotiations and agreements and the principles of performance management as detailed above can be summarized in ten points:

1. Formulate the targets to be measured as concretely as possible, and bind their implementation to resources and schedule. When setting targets, take into account opportunities and threats in the operating environment, and strengths and weaknesses in the operations affecting the strategic development of the entire operational branch and the agency.
2. Set operational performance targets applying to productivity, economy, outputs and

their quality, the service capacity of the agency, human resources and effectiveness. Describe the performance using the basic concepts discussed in chapter 3 and primarily using indicators.

3. Freedom of investment choice and allocation means that resources (appropriations) are allocated to the attainment of a target, but their use is not restricted by type of investment with regard to the targets. The implementor is free to decide what investments should be acquired, how they are allocated and in what amounts.
4. The target implementor can influence the content of the production function so that it is possible to identify the quantity and quality of this influence. This involves the performance-specific and function-specific monitoring and calculation of various investments and costs, enabling the management of the relationship between investment and performances for the attainment of performance targets.
5. It is the same body which sets the targets and provides the resources, and in the standard model there is only one such guiding body for each implementing body. If there are several guiding bodies, main areas of responsibility have to be agreed on. Some agencies have several bodies exercising performance management over them. For instance, Provincial State Offices are supervised by seven ministries, and Employment and Economic Development Centres by three ministries. This poses particular challenges for co-operation between the parties exercising performance management and for the agreeing of performance targets. The guiding principle in performance management is, however, that only one ministry guides each agency.
6. The implementor of performance targets participates in the setting of performance targets and in the decision-making concerning the quality and quantity of the resources with his own proposals in the performance negotiations. Although these talks are specifically for negotiating, if consensus cannot be reached, the ministry can unilaterally determine the targets and allocate resources to them.
7. Performance negotiations end up with a written agreement which records the performance targets and the resources allocated to them. The ministry-confirmed performance targets for an agency or institution are contained in the performance target document (performance agreement) signed by both the ministry and the agency. This cannot be confirmed until Parliament has approved the central government budget proposal.
8. The implementor of the targets is accountable to a higher level in the organization for the results. During and after the operating period, the implementor reports to the body setting the targets on how well the targets have been attained and what the performance has been.
9. The attainment of performance targets is estimated jointly. If there is a performance-related pay system in use at the agency, attaining or exceeding the performance targets is rewarded: part of the resources saved can be used for paying a performance bonus to staff.
10. How well targets are attained in one operating period affects the setting of targets and allocation of resources for the following, depending on how good the performance in

the previous operating period has been. The aim is to improve the input-output ratio every year.

The standard model for the performance management and performance negotiations described here has been adapted variably in different administrative sectors, in accordance with the practices of each ministry and agency. Thus, the practical impact, coverage and general guidance effect of performance management has been very different in the various administrative sectors.

## 5.5 Good practice: Performance management procedure at the Ministry of Trade and Industry

In the administrative sector of the **Ministry of Trade and Industry**, preparation for the performance agreement for the following year begins in January, when the financial unit sends instructions to performance-managed units and ministry departments concerning the drawing up of the budget for the following year. The instructions cover the presentation of performance targets at the various levels of the budget (main title level, class level and item level) in accordance with the basic performance criteria. The instructions encourage agencies and institutions to be in touch with the ministry performance management contact person and the ministry financial unit during the preparation process.

The budget drafts of the agencies and institutions (including preliminary performance targets) are sent to the ministry in late March, after which the ministry can revise its preliminary performance targets. The performance targets are based on the Government Programme, the Government strategy document, ministry strategy and the targets and policies of the policy sectors. The policy-specific targets based on the Government Programme, the Government strategy document and ministry strategy are given earlier in the ministry's operational and financial plan, for a period of four years.

The preliminary performance targets are returned to in June, at which point the financial unit of the ministry draws up instructions for the operational and financial plan for the agencies and institutions. Recommendations for performance negotiations are included. These instructions are meant primarily for performance-management liaisons in the ministry departments, but they are circulated for information to all units subject to performance management.

Performance agreements should be drawn up at the initiative of the ministry; the draft performance agreement for the performance negotiations should be drawn up in co-operation with the performance-managed unit. The performance negotiations between the Secretary of State and the department responsible for performance management should discuss performance management and outlines for the performance negotiations to be conducted with the performance-managed units in the autumn.

The draft performance agreement must be drawn up well before the agreed time for performance negotiations so that there is time for the management group or board of the performance-managed unit to discuss it. If consensus on the performance targets cannot be reached at the draft stage, the remaining issues must be resolved in the performance negotiations. However, in regrettably many cases the performance negotiations turn into a review of the past and a glance at the future, with little genuine negotiation. It is particularly important to find common ground with regard to the strategic targets set by the ministry and hence the outcome targets. The performance agreements and their targets should not address the internal targets of the performance-managed unit.

Usually, a finalized draft performance agreement discussed by the management group or board of the performance-managed unit is available as a basis for performance negotiations. At the negotiations, the ministry and the performance-managed unit review the events of the past year and the performance agreement for the coming year and make any necessary corrections. The performance agreement is signed either after the negotiations are concluded or, if any changes are required, through an exchange of documents later. Because the performance agreement is not legally binding and involves no formal reward or sanction systems, co-operation between the ministry and the unit is essential to shape the performance agreement into a document in which both parties commit themselves to the targets it sets forth.

In the performance agreement, the agency commits itself to the targets set for it; thus, the draft performance agreement should be discussed in the management group or board of the performance-managed unit. The commitment is strengthened by the involvement in the negotiations of representatives of the board of the agency, the senior management of the agency, the Secretary of State of the ministry and the senior management of the ministry department responsible for performance management. In order to confirm the attainment of the targets, the negotiations should be a genuine discussion arriving at a commitment to the operations of the following year. The performance-managed unit needs to understand the gravity of the target-setting, and the ministry must be prepared to address any nonconformities, require that set targets are adhered to or request a report on why the unit has not attained its targets.

The scope of performance management at the Ministry of Trade and Industry is rather broad. The performance management function is usually not a full-time post; it forms part of the duties of certain civil servants at the ministry. The following is a list of *the main duties of the performance management officer at the Ministry of Trade and Industry*:

- Review the budget drafts of the performance-managed unit together with the unit;
- Review the biannual report of the performance-managed unit;
- Draw up performance feedback and the final accounts statement on the basis of the unit's final accounts (especially the annual report);
- Draw up the performance agreement and organize performance negotiations together with the performance-managed unit;
- Keep in contact with the management of the performance-managed unit and its man-



- agement group or board in order to inform them of matters agreed;
- Also keep contact with the performance-managed unit regarding talks and development measures;
- Liaise within the ministry and with interest groups; have regular meetings with ministry board members;
- Monitor the operations of the performance-managed unit with regard to the attainment of targets agreed at performance negotiations and to the implementation of other projects;
- Evaluate and bring up the development needs of the performance-managed unit;
- Strengthen your own expertise by observing central government administration development projects and ministry development projects, and by participating in meetings and working seminars.

Performance management of agencies and institutions in a particular administrative sector is the responsibility of the appropriate department at the ministry, headed by the Director-General. The Secretary of State chairs the performance negotiations between the ministry and the major agencies. The ministry financial unit supports the Secretary of State. Performance management matters are discussed by the department management group, or the Director-General may simply approve them (these include evaluations of operations in the first part of the year or in the previous year, evaluations of the year's operations and statement on the final accounts, budget proposals, performance management letters, documents for the autumn negotiations, final protocols and performance agreements).

The Director-General is assisted by an expert group, with a dedicated contact person and deputy designated for each performance-managed unit. The ministry also has a performance management preparation group for coordinating practical measures and for carrying out development projects. The ministry financial unit coordinates ministry-level documents together with the departments. The financial unit also has responsibility for developing performance management in accordance with the overall targets and policies of the central government administration. The financial unit further organizes meetings for the network of contact persons. This network includes the performance-management liaisons at the ministry and at the agencies, and ministry representatives in the management groups or boards of the agencies.

## 6 PERFORMANCE MEASUREMENT AND INDICATORS

*In the performance agreements, targets are set for effectiveness, efficiency, outputs and their quality, and the management of human resources. The targets must be measurable or otherwise based on systematic evaluation.*

### 6.1 Properties of a good performance indicator

One of the major practical challenges in performance management is evaluating and measuring performance in a way that is as clear and reliable as possible. For this reason, using good indicators to illustrate performance is considered desirable. Parliament has emphatically expressed its requirement to make targets and performance reporting tangible through the use of indicators. Despite commonly known shortcomings in the use of indicators, *their use is supported by their properties of being clear, illustrative and measurable*. For example, applying performance-related pay requires clear and measurable indicators. On the other hand, the indicators must also be diverse enough to cover effectiveness, efficiency, quality, service capacity and staff.

In many areas of the central government administration, the development of indicators has proved to be a daunting task. Work in this area is going on constantly, and most agencies and institutions have been provided with indicators that lend clarity and solidity to their performance management.

In general, a good performance indicator has at least the following properties:

- it describes outputs or achievements, not the activity itself;
- it accurately describes the things which should be achieved or which are essential for successful operations;
- the agency can affect its level through measures of its own;
- targets can be set for its level;
- it can be regarded as a constant (though fine-tuning may be necessary from time to time), enabling comparisons over time;

- the matter measured is connected with the basic aims and strategies of the operations, and thus its monitoring is of importance to the management and guidance of those operations;
- it is interpreted in the same way at the agency as at the ministry;
- its measurement data can be obtained with relatively little use of resources.

Indicators can be used, for example, to draw up time series which illustrate the development of the performance targets over a longer period of time. At their best, indicators enable comparisons between different actors or international comparisons, which may be useful in evaluating the performance of organizations which are unique in Finland.

For example, **Statistics Finland** and the **Finnish Customs** constantly engage in international co-operation and participate in development networks which can be used to compare procedures and performance ('Benchmarking').

In many administrative sectors, indicators are being developed systematically and continuously. For example, the **Ministry of Transport and Communications** has conducted the design of a versatile indicator system for agencies representing a mode of transport (Ministry of Transport and Communications publications 10/2001). The ministries supervising the Employment and Economic Development Centres have jointly produced performance indicators for them (Ministry of Trade and Industry, working group reports 5/2001).

Measuring productivity has been considered especially challenging in the public sector. **Statistics Finland** has run a public-sector productivity statistics development project for calculating the productivity development of very different government agencies and institutions. Statistics Finland has prepared calculations for the agencies' internal use. Many agencies and institutions have found these calculations useful and have adopted productivity indicators on a permanent basis.

In the calculations for **universities**, for example, the outputs considered are degrees, publications, Open University credits, etc. For research institutions, the indicators involve mainly publications and other research products, weighted for instance by work input.

**The National Board of Taxes** employs an 'economy index', which is a compilation of a variety of outputs and the resources employed to produce them.

Indicators and indicator systems in use within various administrative sectors can be classified as follows:

- *Indicators showing the volume of outputs:*
  - e.g. the number of degrees completed, or the number of solutions provided
- *Indicators showing economy and productivity:*
  - e.g. the ratio of revenue to outputs or of outputs to staff work input
- *Indicators showing the quality and internal functionality of the organization:*
  - e.g. average processing time per matter, or staff job satisfaction
- *Indicators showing effectiveness and service capacity:*
  - e.g. service adequacy and service allocation for instance by region, by customer group or by demand, customer satisfaction, and social impact.

### *Choice of indicators*

Using clear indicators is considered a basic requirement for performance reporting. They give a good and intelligible basis for establishing accountability, and they also offer political decision-makers an illustrative tool for evaluating performance.

Indicators yield comparable information, which allows the examination of performance trends over a longer time period. The development of similar units can also be compared. Such indicators are used for example at Employment and Economic Development Centres, at regional environment centres, at land survey offices, in courts and in many other agencies.

Measuring is based on systematic collecting of information. Creating a measurement system requires defining not only the indicators but also any scales and sources used. It is of course recommended that the measurement data be gained directly from a continuous monitoring of the operations and from computer systems or from compiled statistics. Precision and reliability requirements should also be specified for the measurement data in such cases. Above all, it should be clearly expressed whose responsibility it is to carry out the measuring, to compile the data and to report on it.

With regard to defining indicators, some general instructions can be given. One should choose indicators which

- describe the set targets as well and as immediately as possible;
- are significant for the performance-management officer or evaluator (e.g. political decision-makers) as well;
- are as indicative as possible, i.e. yield measurements on the basis of which operational conclusions can be drawn.

Correspondingly, one should be wary of indicators which

- are surrogate indicators narrow in scope;
- are difficult to understand;
- are beyond the influence of the agency or institution itself;
- are unreasonably heavy or expensive to use (for example, collecting the data may be highly labour-intensive).

In many areas and annual reports there are already indicator time series that illustrate changes and trends in the attainment of performance targets. It has been found particularly difficult to define indicators for research institutions or for agencies undertaking administrative or surveillance duties. However, not all possibilities have yet been exhausted. It is often possible to obtain data on outputs, and service user satisfaction polls can also yield useful indicators.

Not all targets can be illustrated with unambiguous performance indicators. Some targets will continue to be more about the implementation of necessary measures than about results achieved. In such cases, the information as to whether a particular measure has been implemented, in whole or in part, may be sufficient. Some targets pertain to

changes in procedures or to improvements in service quality. Indicators are often useful even when qualitative targets are being evaluated on the basis of very diverse qualitative data. In a way, indicators provide a ‘hard’ basis for evaluation. In any case, it is always necessary in performance evaluation to specify the criteria on which observations are based, even if unambiguous quantitative measurements cannot be defined.

In evaluating effectiveness, change in indicators can often be caused by factors other than the agency’s own measures. The evaluation of impacts is the more difficult the broader and more comprehensive the indicators that are used. For example, the applicability of indicators illustrating the development of overall traffic safety or of the state of the environment (e.g. acidification of water systems) is very limited, at least at the annual level. Public measures are easier to evaluate when other contributing factors are linked to the evaluation. For example, if the target is to reduce emissions from vehicular traffic, the indicator showing emission levels could be linked to an indicator showing road traffic volumes, the average age of the vehicle stock, etc. Indeed, the target is often expressed in such a way too: “The growth of emissions is slower than the growth of traffic.”

The effectiveness of the **labour administration** is illustrated with the following indicators, for which annual performance targets are set in the budget:

- minimum number of jobs filled;
- average number of days that jobs subsequently filled were open;
- percentage of those participating in labour market training who had found employment 2 months after the training;
- maximum percentage of those unemployed 3 months after vocational labour policy adult education;
- maximum percentage of those unemployed 3 months after subsidized employment.

These indicators can be influenced through measures undertaken by the labour administration.

## 6.2 Performance concepts and measurement

‘Effectiveness’, ‘economy’ and ‘productivity’ are basic concepts which describe the content of performance management and performance agreements. The concept of economy focuses on outputs and the costs required to produce them, while productivity measures outputs against investments. In the new performance concepts, economy and productivity are combined into operational efficiency. With an expanded definition of efficiency, we may discuss management efficiency or organization efficiency, which also incorporate the economy, productivity and profitability of operations.

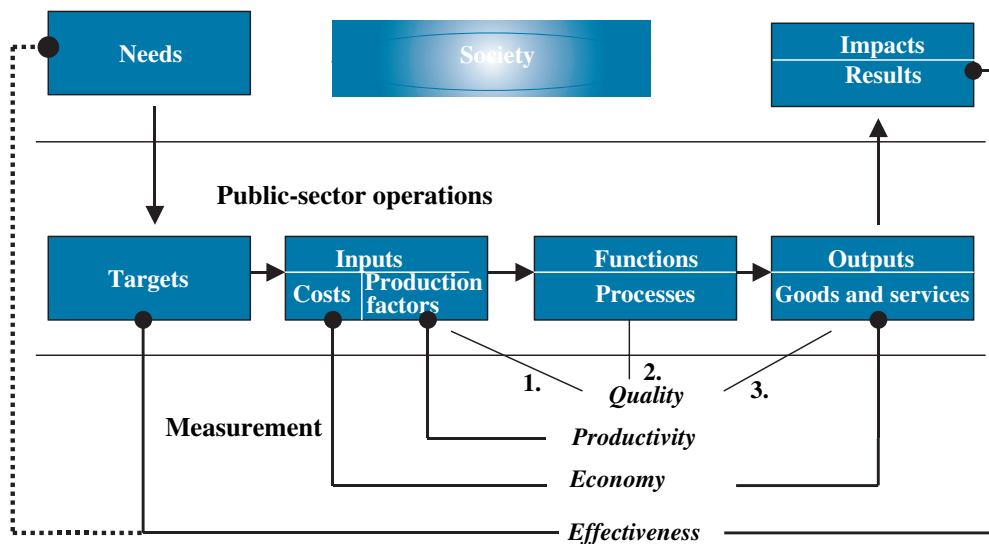
Performance factors also include operational quality and quality management. Quality can be examined as an internal concept, closely related to efficiency, but operational quality can be examined externally too, in which case it is closer to the concept of effec-

tiveness. The reference is then to the quality of the end product, and a typical quality indicator might be customer satisfaction.

When analysing performance factors, we should remember that results should be produced by using human resources wisely and by continuously developing competence and improving processes. Performance concepts include the internal functioning of the organization and management of human resources; this in turn refers to a fundamental requirement of good performance: a competent, motivated staff with good working capacity.

Operational targets are always scaled in relation to resources, one way or another. This is true of productivity targets and economy targets by definition. Where the results cannot be scaled directly to resources, other means can be used. As a kind of minimum requirement, performance targets should be grouped by profit centre, with a description of resource development in the profit centre or task area (appropriations, work input) illustrating the relationship between targets and resources. Scaling requires information on resource development and on changes in target levels or operational volume. Changes in resource distribution between profit centres or functions can be presented if necessary.

The different aspects of performance can be illustrated with the input-output model, with a quality dimension added. Although quality cannot be described as a straightforward input-output relationship like the other aspects, the model can distinguish between input quality, process quality and output quality (quality 1, 2 and 3):



**Figure. Performance concepts and measurement.**

Regarding the above figure, we may summarize that performance in this model consists of the following:

- social needs and corresponding targets;
- targets are set for the policy effectiveness of public-sector operations, operational performance (such as productivity and economy) and the volume and quality of outputs and service capacity;
- targets should be based on measurement or some other systematic evaluation.

For example, measuring productivity always requires management of quality issues, too, and information on changes in the content of services, so that the output of the organization can be reliably defined for the measurement. Thus, the aim for the constant improvement of productivity and efficiency and for the measurement of change directs agencies and institutions to undertake quality management and customer-oriented operations as well. Quality management in particular and the expertise required in various quality systems poses new challenges for agency management and performance management, for instance in the case of universities and polytechnics. In order to thrive in the international training market, universities must assume more responsibility for implementing anticipation and quality assessment. <http://www.enqa.eu/files/ENQA%20Bergen%20Report.pdf>

### 6.3 Good practice: Productivity measurement at the National Board of Patents and Registration

**The National Board of Patents and Registration** has been applying operational performance indicators widely since the late 1980s. The National Board of Patents and Registration was one of the pilot agencies in the performance budgeting reform in 1990. However, we should remember when comparing numerical measurements in different agencies and institutions that they differ considerably in their operations.

The main performance indicator at the National Board of Patents and Registration is work productivity, which is calculated on the basis of productivity changes weighted with the number of person-years in profit centres (outputs per person-year). The direct productivity measurement involves the application and notification processes and about 70% of the agency's staff. Support services are not included. The coverage of the productivity measurement is one of the largest among all central government agencies. The calculation criteria show that between 1988 and 2003, work productivity at the National Board of Patents and Registration has increased by 93%.

Productivity targets have been included in the performance management practice between the Ministry of Trade and Industry and the National Board of Patents and Registration since 1990. The performance agreement for 2003 incorporated a target of improving work productivity by 1.5%. The average increase during 2003 was 3.1%, which was clearly over the set target. The performance target for 2004 was to improve productivity

by 0.3%. The budget proposal for 2005 incorporated for the National Board of Patents and Registration the goal of maintaining a high level of work productivity and controlling costs having an impact on service fees through regular monitoring of unit costs. The following indicators are given for the National Board of Patents and Registration in the central government budget for 2005 and in the operational and financial plan for 2006-2009:

#### Indicators

|  | 2003<br>actual | 2004<br>target | 2005<br>target |
|--|----------------|----------------|----------------|
| Work productivity<br>– productivity change on<br>average % | +3,1           | +0,3           | +0,1           |
| Economy<br>– change in unit costs on<br>average %          | +0,5           | +1,9           | +1,8           |

The National Board of Patents and Registration has been using a performance-related pay system since 1990. Productivity is a key criterion, the other criteria being customer feedback (service grading) and development measures. In the internal performance management of the National Board of Patents and Registration, work productivity is considered by unit. The following table traces developments from 2003 to 2009:

#### Change in work productivity (%) from 2003 to 2009

| Profit centre                                    | 2003<br>actual | 2004<br>action<br>plan | 2005<br>budget<br>proposal | 2006<br>operational<br>and<br>financial<br>plan | 2007<br>operational<br>and<br>financial<br>plan | 2008<br>operationa<br>and<br>financial<br>plan | 2009<br>operational<br>and<br>financial<br>plan |
|--|----------------|------------------------|----------------------------|---|---|--|---|
| Trade register                                   | 17,4           | 0,3                    | 0,4                        | 0,3   | 0,5   | 0,5  | 0,4   |
| Final accounts<br>and foundation<br>matters      | 2,6            | 0,3                    | 0,3                        | 0,3   | 0,2   | 0,4  | 0,4   |
| Business<br>mortgage                             | 24,9           | 0,3                    | 0,3                        | 0,3   | 0,3   | 0,3  | 0,3   |
| Register of<br>associations                      | -12,9          | 0,3                    | 1,2                        | 0,7   | 0,7   | 2,3  | 0,7   |
| Patents  | 1,5            | 0,3                    | 0,5                        | 0,5   | 0,5   | 0,5  | 0,5   |
| Utility models                                   | -11,5          | 0,3                    | 0,2                        | 0,3   | 1,3   | 0,3  | 0,3   |
| Trademarks                                       | -1,5           | 0,3                    | 0,4                        | 0,1   | -0,7  | -24,5  | -8,7  |
| Design<br>protection                             | 16,9           | 0,3                    | 7,4                        | 2,9   | 0,0   | 0,0  | 0,0   |
| National Board<br>of Patents<br>and Registration | 3,1            | 0,3                    | 0,5                        | 0,4   | 0,3   | -2,5   | -0,6  |



The productivity calculations involve some 360 person-years. The targets for average processing times in the various services of the National Board of Patents and Registration are given below:

### Customer service processing times

|   | 2003<br>actual | 2004<br>target | 2005<br>target |
|---|----------------|----------------|----------------|
| Domestic patent applications                                  | 2,9 y          | 2,7 y          | 2,5 y          |
| Foreign patent applications 1)                                | 8,6 y          | 7,5 y          | 6,8 y          |
| Applications for rights to utility models                     | 3,0 months     | 3,0 months     | 3,0 months     |
| National trademark applications                               | 9,0 months     | 9,0 months     | 6,0 months     |
| International trademark applications (target country Finland) | 7,2 months     | 11,0 months    | 5,0 months     |
| EU trademark statement  | 2,0 months     | 2,5 months     | 2,5 months     |
| Design protection application                                 | 10,2 months    | 9,5 months     | 9,5 months     |
| Trade register declarations                                   | 0,4 months     | 0,5 months     | 0,5 months     |
| Corporate mortgage application                                | 0,2 months     | 0,5 months     | 0,5 months     |
| Notification to register of associations                      | 3,6 months     | 2,0 months     | 2,0 months     |
| Notification to register of foundations                       | 1,2 months     | 0,7 months     | 0,5 months     |

*Processing times* are of particular importance to external customers and to the Ministry of Trade and Industry. The processing times differ widely due to the studies required by various applications or notifications, advertisement periods, reply periods and so on. Also, customers respond in very different ways to interim decisions and requests for further information.

One reason suggested for productivity targets or indicators not finding much use yet in performance management documents is a lack of monitoring data on the use of inputs or, regarding work productivity, on work input or the use of working time. At the level of the agency as a whole, the number of person-years can be used directly. However, it is necessary to analyse inputs whenever productivity is being measured on only some of the outputs. Measurement development requires all agencies and institutions to improve their *cost attribution*. Required improvements to bookkeeping and final accounts also call for better cost attribution.

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1) After 2005, these processing times will shorten substantially.

## 6.4 Outputs and quality management

Operational quality in organizations can be examined at least from the following perspectives:

- customer (functioning of a product or service from the customer's point of view, customer satisfaction);
- properties of the product (e.g. whether it fulfils quality standards);
- manufacturing (raw materials, the skills of the manufacturers and the manufacturing processes);
- competition (quality compared with the competitors, based on consumer choices);
- society (general effects of the manufacture and use of a product or service on society and on the environment).

Quality can thus be defined in many different ways. According to a general definition, *quality consists of those properties of the organization on which its ability to fulfil the operational demands and expectations placed on it is based*. What is essential, then, is how well the operations meet the customer's needs and expectations, and how well the organization as a whole responds to the demands placed on it. For example, the operations and service capacity of agencies and institutions can be evaluated not only through the benefit and added value gained by the customer but also through the fulfilment of professional and normative standards.

For example, the granting of a patent to an invention grants the customer (the applicant) the exclusive right to manufacture and market that invention (benefit to the customer). However, the decision must fulfil the conditions of patent legislation and be subject to careful study (professional demands of standards and patent research). Also, the application procedure must be smooth and flexible. The customer must be able to obtain sufficient information to prepare the application, and staff must deal with his matter appropriately and courteously (service process quality). A certain procedure must be observed in processing the application, and the matter must be processed as soon as possible (production process quality). In order to ensure the continuity of high-quality service production, staff competence and staff improvement in tune with new service requirements must be ensured. Staff job satisfaction and working capacity are important elements in performance. As a whole, the services must be designed so that there is enough processing capacity to meet the demand for application processing (sufficiency), guidance and advice on how to prepare applications must be available in different parts of the country (accessibility), and these services must be aimed specifically at those applicant groups who are not professionals (targeting). The productivity impact between support services is becoming increasingly obvious in patent matters through the use of information services and electronic registers.

It is thus important for the continuity and development of the operations of agencies and institutions that the organization as a whole operates with a high level of quality.

Strategic processes are based on careful analyses of trends in the operating environment, the sector and customer needs. Operations are professionally and systematically managed, and the management sets a good example. Customer information is collected regularly and carefully analysed, and operational conclusions are based on it. Processing has been honed into a smooth system, and the distribution of duties among staff and collaboration between them in the processes is seamless. Errors in the processes have been minimized. There is a human resource policy plan, and the competence and working capacity of staff are taken care of. All these together constitute the operating quality of the organization and lay the foundation for a successful service performance that can be evaluated and developed, for example through the use of quality awards.

There are existing sets of evaluation criteria that can be applied to studying and evaluating the capability of operations or an organization, such as the European quality award model (EFQM) and the Common Assessment Framework (CAF) of the EU Member States. These models are based on a conception of what the properties of an organization with high quality are. Criteria based on quality award models can also be used in setting the targets in a performance agreement. For example, criteria measuring customer results and principal capability results can be feasibly used in defining performance targets.

When quality is understood in a broad sense as the properties of operations which respond to the customers' needs and expectations, we may note the following about the setting of quality targets:

- quality must be examined and evaluated from several perspectives;
- customers' quality evaluations and the quality related to the properties of the outputs are essential perspectives but not sufficient in themselves;
- individual indicators must always be interpreted when evaluating quality;
- there are several different evaluation models and sets of criteria for the improvement and evaluation of quality.

We observed above that in evaluating quality the interpretation of indicators cannot be taken out of context. This means that even if an indicator works well in a particular environment, it does not necessarily work in another. On the other hand, it is often necessary to evaluate quality with more than one indicator, and the use of too many indicators may be disproportionately expensive considering the benefits. *In practice, we must know how to make choices and how to delimit the number of things measured.* Evaluating quality always involves careful 'qualitative' interpretation of measurement results.

So, what quality perspectives can be considered the most essential for performance management in government agencies? Firstly, we may consider that the targets concerning quality and its improvement fall largely within the authority and responsibility of the management of the agency or institution. Quality factors that are shared by all public services and are important for results include:

- customer satisfaction and service accessibility;
- reliability and safety;

- fairness and legal protection;
- impartial and equal treatment of customers;
- confidentiality;
- correct and up-to-date information and correcting of mistakes;
- customer influence and participation potential;
- business-like approach and courtesy in service situations;
- training and professional skill of staff;
- cost efficiency, matters dealt with without delay.

The quality of outputs is closely connected with the properties required of them. Thus, it is difficult to present quality criteria common to all services. *Agencies and institutions must themselves find the indicators which describe the quality of their operations best.*

In a research institution, for example, the quality of a publication it produces can be described with the relevance of its subject matter, the novelty of its results, the technical documentation of the research process, etc. Ultimately, the quality of the report lies in how useful it is and how usable its findings are, and thus the best source regarding this is the intended user of the information. The demand for the information and the sales of the publication can also be used as a simple indicator, but other mutually complementary indicators often have to be employed as well.

The evaluation and measurement of the quality of outputs or procedures can also be based on various quality standards (e.g. ISO 9001:2000) and quality recommendations. For example, the **Ministry of Social Affairs and Health** has published quality recommendations to guide service providers in matters such as care and services for the elderly, children's daycare, school health care, mental health services, and so on.

As far as performance and accountability are concerned, it is feasible to examine all quality factors from the perspective of the users of the services. For the production process or production efficiency, this translates into processing times or customer waiting times. The assumption is that speedy processing of matters is an important quality criterion for users. This also touches on the concept of 'customer effectiveness', which may be considered to include not only the quality of services but also the benefits gained by the customer.

One indicator that has often been used in practice is customer satisfaction. Like other indicators, this can be used wisely or clumsily. In performing the measurement, it is necessary to focus the customer's attention on the content of the service and its quality properties. General assessments of satisfaction or dissatisfaction are often difficult to interpret, and factors other than the customer's own experiences can come into play. Customer satisfaction surveys of various kinds are widely used by agencies and institutions.

Describing an evaluation criterion and evaluation method helps to specify the performance target.

For example, in the performance agreement of the **Finnish Vehicle Administration for 2005**, many targets are expressed quantitatively, such as: "Customer satisfaction in the

operations of the Finnish Vehicle Administration as a whole is on average at least 3.5 on a scale from 1 to 5.” Here, the performance target specifies not only the evaluation criterion but also the way it is measured.

Besides customer satisfaction or the quality of service outputs, the quality targets recorded in the performance agreement can concern changes in procedures and the range of services. For example, an agreed target might be to increase the production of online services.

Quality targets can also be development targets linked in time to particular development measures. Development targets may concern such things as co-operation between the agency or institution and other service providers, or the launching of joint experiments.

The following are examples of indicators used in performance agreements for 2005 of agencies and institutions in the administrative sector of the **Ministry of Transport and Communications**:

- Accessibility of the helpline service is at least 83%. (Finnish Vehicle Administration)
- Volume of surfaced roads in poor condition is no more than 5,650 km. (Road Administration)
- Delays of over 5 minutes to long-distance passenger trains due to track maintenance affect no more than 5% of traffic. (Finnish Rail Administration)
- Icebreaker service response time is 4 hours. (Finnish Maritime Administration)
- Accuracy of forecasts of the probability of rain is at least 83% for one-day forecasts and at least 78% for two-day forecasts. (Finnish Meteorological Institute)
- Staff educational attainment index is at least 5.5. (Institute of Marine Research)

In the use of quality indicators and the promotion of quality management, flexibility and innovativeness in the developing of new and better methods of work and work processes is an important principle. If, for example, quality indicators are used very restrictively as performance targets or not used at all, performance management can weaken the renewal capacity and flexibility of agencies and institutions. When employing performance management and indicators, we must be conscious of the risk of measuring the wrong things *or of intervening too radically in the management and procedures of the agency*.

On May 18, 2005, the **Ministry of the Interior** published the *service targets for local government* and their attainment criteria. The service targets constitute a promise made by the authorities regarding the maximum processing times or maximum waiting times to access a service, for instance. From the administration perspective, the service target of the controlling authority is binding upon the agency actually providing the service. The targets form part of the normal process of control, and they are agreed in the performance agreements for each agency. “Accountability and public liability for attaining targets rests with the head of the agency, while political liability rests with the minister,” said *Hannes Manninen*, Minister of Regional and Municipal Affairs, at the briefing where the service targets were published. For example, the service targets of the local registry offices are that the permanent address data in the population register system are correct

and up-to-date in 99% of all cases and that customers can gain access to the services of a notary public within two days.

The service targets for local government enter into force on January 1, 2006. Similar targets for the central government administration will be set in autumn 2005. Attainment of the targets will be monitored, and they will be evaluated in the performance negotiations for 2006 between ministries and their subordinate agencies. The attainment of service targets will also be covered in the annual basic services evaluation reports submitted by Provincial State Offices.

Preliminary service targets for 2006 have been set for the police, the execution authorities, prosecutors, local registry offices, the tax administration and the labour administration. The Social Insurance Institution has participated in the process; its service target scorecard for 2005 was published along with the service targets. A complete list of local government service targets can be found at <http://www.intermin.fi/suomi/hallinto>.

The setting and publication of service targets derives from the report *Parempaa palvelua, tehokkaampaa hallintoa* (Better service, more efficient administration) submitted by the Government to Parliament in April 2005. In this, the Government requires ministries and Provincial State Offices to set their subordinate local and regional authorities tangible and measurable targets concerning the accessibility of central government services as of 2006.

## 6.5 Good practice: Security indices used by the Police

The duty of the **Police Department of the Ministry of the Interior** is to ensure that the focus areas and policies approved by Parliament and the Government are translated into practical police work. The policies are taken into account in planning the work of the provincial authorities, national units, police departments and other police units. The operational and financial plan of the Police is a document used by the Police Department of the Ministry of the Interior to conduct its control and management duties. It confirms the major policies and the performance targets of the police administration for several years ahead.

When estimating the results of police work, two different points of view must be taken into consideration: security and the sense of security. The development of security can be estimated on the basis of statistical data. The number of recorded crimes and disturbances indicates whether security has increased or decreased. The sense of security, on the other hand, describes subjective experiences. This may dovetail with statistical trends. However, it is often the case that the sense of security of the public increases or decreases independently of the security trends shown by statistics. For example, individual crimes that are widely publicized are detrimental to the sense of security of the public. The Police can influence statistical trends in security by setting focus areas and targets for police work, but the sense of security is affected by a number of factors beyond the control

# National indicators for police work (Operational and financial plan 2005-2009)

|  | Indicator  | Value of the indicator:<br>maximum/minimum<br>in 2006   | Source           |
|--|--|---|------------------|
| Indicators measuring the effectiveness of operations                               | Street Security Index  | Minimum 93,50   | Polstat          |
|  | Traffic Safety Index   | Maximum 132   | Polstat          |
|  | Sense of insecurity when outdoors does not increase from the 2003 level. Percentage of people who feel unsafe. | Maximum 33% on Friday and Saturday evenings in the centre of the town or city, and maximum 17% in residential areas | Police barometer |
|  |  | Maximum 25% in the centre after dark  | Police barometer |
| Indicators measuring operational efficiency (economy, productivity, profitability) | Number of documented traffic control cases   | Minimum 2004 level  | Polstatt         |
|  | Number of tasks at own initiative in relation to the total number of tasks                                     | Minimum 21 % of the total   | Polstat          |
|  | Work input trend in surveillance in relation to the Street Security Index and the Traffic Safety Index         | At least corresponding to the development of indexes  | Polstat          |
| Indicators measuring quality   | Visibility of the police   | Minimum 2003 level  | Police barometer |

of the Police. Nevertheless, the success of police work on the whole must be based on an evaluation of both security and the sense of security.

The effectiveness of police surveillance is evaluated by using indices that describe security. The Street Security Index is the number of cases of robbery, assault, injury and drunk driving reported to the police, weighted and measured against the population. The higher the index, the better the security.

The *Street Security* Index is a good indicator of security at the national level and in the large cities. In sparsely populated areas where events are few, applying the Index is problematic.

The *Traffic Safety* Index is obtained by figuring out the ratio of the number of fatalities in road traffic to the number of cars and motorcycles registered.

The impact of police surveillance to the sense of security of the public is monitored through surveys in addition to the above indices. The national police barometer has been conducted regularly since the late 1990s.

The quality of police work manifests itself in the visibility of the Police. Visible patrolling is not the most efficient method of police work, but surveys demonstrate that increased police visibility contributes to an increased sense of security. The following table summarizes the national indicators for police surveillance confirmed in the operational and financial plan for 2005-2009.

## 6.6 Systematic evaluation supporting performance measurement

There are surely duties in agencies and institutions for which it is difficult to develop quantitative indicators. Such duties may include R&D activities or supervision and inspection. In the budget legislation provisions, the concept of systematic evaluation has been added as a replacement for the more technical indicators in such cases. Here, 'evaluation' refers to analysis of qualitative material collected with predetermined information collection and processing methods. Qualitative evaluation of this kind must meet at least the following demands:

- *It can be shown that the qualitative information collected has a logical connection with the performance targets.* A performance target can concern, for example, the effects and importance of research. How studies carried out during the year have been used for instance in planning or decision-making regarding reform measures makes a feasible case for the utility of the research. Public debate prompted by the conclusions of research indicates how accurate its themes and results are. Considering these factors together can yield a conclusion as to whether the performance target has been attained.
- *The qualitative (and possibly also quantitative) material is collected in a systematic way.* A qualitative evaluation is the more credible the more the factors used ('quality criteria') were already defined when setting performance targets. Credibility can also be increased by defining a target quality level in advance, for instance on the basis of an agreed quality classification.
- *Conclusions of development can be made on the basis of the collected information, if necessary, in which case the same information is available from different years.* The more permanent and long-term the target, the more there is a reason to collect the same information for several years. We may assume that the impact of operations will manifest itself in trends in surrogate indicators or qualitative properties too. If performance targets change every year, such long-term information of course cannot be used.
- *Conclusions should be based on the examining and analysing of more than one qualitative factor.* When the attainment of a performance target cannot be measured with one or two indicators, a combination of data will be needed. Consideration must be given to which factors support the conclusion that the performance target has been at-



- tained and whether there are points that contradict this conclusion.
- *Before drawing conclusions about attaining performance targets, the impact of any external factors on the results must be considered.* Especially with outcome targets, it is usually necessary to examine the impact of any other factors on the changes observed. For example, was the attainment of the traffic safety target influenced by the exceptionally good weather? Evaluation requires familiarity with the phenomenon involved and a careful review of all possible explanations.

## 6.7 Good practice: Performance financing of vocational education

Changes in working life have emphasized the significance of the constant development and evaluation of the quality and effectiveness of vocational education as guiding factors. Efforts have been undertaken to reform the control and financial system of vocational basic education so that it would encourage the organizers of the education to attain results and improve quality. A performance financing system has been developed to supplement the calculation-based government grant system; it consists of performance financing based on quantitative indicators and a quality award based on the EFQM.

Development of the performance financing system began in 2000 with the National Board of Education launching a performance financing project at the instigation of the Ministry of Education. Performance financing has been introduced gradually since 2002. All providers of basic vocational education participate in the evaluation of performance based on computed indicators. Today, the performance financing system functions as a reward system, but the aim is to integrate it into the basic financing system.

Development of the performance financing system has progressed in close co-operation between education providers and representatives of working life. The Ministry of Education has appointed a tripartite consultative committee whose remit is to help the Ministry in the development and application of the performance financing model.

### *Financing system based on performance measurement*

In the performance financing system, the performance financing indicators and quality awards form a structure where the elements are mutually complementary. The evaluation points for education performance are derived from the targets set for vocational education in legislation and by the Ministry of Education.

The performance financing system is based on quantitative indicators. The evaluation points are divided into the categories Effectiveness, Processes and Staff, following the Balanced Scorecard (BSC) framework. Each evaluation point is provided with indicators that are as relevant and reliable — and as simple — as possible in measuring the performance area in question.

## Indicators of performance financing and indicator-specific weights in 2004

| Indicators    |  | Weight of the indicator in 2004 |
|---------------|--|---------------------------------|
| Effectiveness | Employment                             | 40 %                            |
|               | Graduate studies (in higher education) | 15 %                            |
| Processes     | Dropouts                               | 15 %                            |
|               | Completions                            | 13 %                            |
| Staff         | Teacher competence                     | 11 %                            |
|               | Staff training                         | 6 %                             |
|               |  | 100 %                           |

The effectiveness of education is measured with placements in working life and transitions to higher education. The process performance of education measures the number of dropouts and the time taken to complete studies (completion indicator). Staff performance is measured with the formal qualifications of teachers and the resources dedicated to staff development. Awarding performance rewards to education providers is based on a performance index which is a combination of the above evaluation indicators. Each indicator reflects performance from a particular perspective. The weights of the indicators show the relative importance assigned to each of them (*Tulosmittariseloste 2004*. Ministry of Education handouts 2004:7).

## Example of the calculation of the 2004 employment indicator

| Education provider | Count of those completing basic degree between 1999 and July 31, 2002 | Background factors               |  | Graduates employed at end of 2002 (%) | Employment forecast (%) | Employment indicator |
|--------------------|---|----------------------------------|--|---------------------------------------|-------------------------|----------------------|
|                    |   | Youth unemployment rate 2002 (%) | Percentage of special students on September 20, 2002 (%) |                                       |                         |                      |
| A provider         | 1 200   | 6,6                              | 10,3   | 70,5                                  | 68,1                    | 2,4                  |
| B provider         | 4 500   | 22,6                             | 4,5  | 52,4                                  | 52,4                    | 0,0                  |
| C provider         | 3 200   | 15,2                             | 1,2  | 60,3                                  | 62,2                    | -1,9                 |

The vocational education quality awards are given out every year to vocational education providers in recognition of the quality of their operations, results and continuous development and of exemplary efforts in the improvement of vocational education. The judging of the quality award competition is based on the EFQM model.

The purpose of the vocational education quality award is to support and encourage vocational education providers to undertake continuous quality evaluation and development of their basic functions and to seek out best practices for learning in other organizations. An annual choice of focus areas helps draw attention to important education policy themes. Also, quality awards help generate evaluation and monitoring data on the quality and performance of vocational education to help in further development.

### *Experiences of the introduction of performance financing*

The performance financing system has been in use since 2002. So far, performance funds have been given to 49 vocational education providers and quality awards to seven.

Even during the experimental phase, performance financing has attained many of the targets set for it. With the introduction of the system, vocational education providers have paid more attention to the quality and effectiveness of their teaching and to major education policy targets that the Ministry of Education considers important in the development of vocational education. As a result, vocational education providers monitor their performance using performance financing indicators and have also developed related indicators of their own.

Performance financing has also improved the reliability and usability of statistics on vocational education in many ways. Education providers have started paying more attention to the production of statistical data and to the verification of data reliability. Education providers also benefit from better statistics in their own development efforts, self-evaluations and comparisons with other education providers.

The performance financing system has generated a new kind of information to support the evaluation and monitoring of effectiveness for both education providers and the National Board of Education and other interest groups. *The main principle is that evaluation should be transparent and public.* The performance financing data are public and have been published on the National Board of Education website <http://www.oph.fi/english> organized by education provider and by indicator. The quality awards have helped create a more uniform framework to help education providers in quality management. Positive publicity for performance financing and quality awards has helped increase the attractiveness and public appreciation of vocational education.

## 7 PERFORMANCE REPORTING AND ACCOUNTING BY A GOVERNMENT AGENCY

*Central Government Budget Act section 16. Accounting. In order to monitor their operating costs, operational performance and effectiveness and to meet other needs in implementing direction, management and accountability, government agencies shall arrange their accounting of performance, management accounting and other monitoring systems as further provided for by Government decree.*

*Central Government Budget Decree section 55. Performance and management accounting and other monitoring systems. In addition to its accounting stipulated in section 41, a government agency shall arrange for monitoring of operational performance (performance accounting) so that they produce in an economical and reliable manner:*

- 1) The essential information required for external steering of the government agency; and*
- 2) The information stipulated in sections 63 and 65 to be presented in the final accounts and annual activity report on operations.*

*In arranging for performance accounting and other monitoring systems, the continuity of operations shall be taken into account so that the essential information regarding finances and performance to be reported in the final accounts and the annual report can be compared with that of the current year and of the previous two years.*

*A government agency shall arrange for management accounting and its utilization in management in the manner required by to attain results in agency's performances and by procedures for internal control stipulated in section 69.*

## 7.1 Performance reports and other monitoring information

In performance management, ministries guide the agencies and institutions subordinate to them by setting performance targets, monitoring their attainment and allocating resources for attaining them. Performance management obliges agencies to report on the attainment of performance targets. An annual report is a yearly review of the attainment of performance targets submitted by the agency to its supervising ministry. Ministries also detail the attainment of their targets and strategies in their respective annual reports.

In addition to the annual report and financial statements, the central government administration also produces performance reports for internal interest groups and annual reviews for external interest groups. Performance reports are not provided for in the Central Government Budget Decree, but they are often necessary for the management of operations. An annual review helps create and maintain the corporate image of an agency, among other things. It is a voluntary exercise and can be drawn up in any form the agency wishes.

The performance reports and annual reviews cannot replace the annual report and financial statements. If the financial statement and report is published in the annual review, that annual review must clearly state which portion of it constitutes the final accounts as required in the Decree. The description of the performance of the operational branch of the ministry will form part of the Central Government Final Accounts Report, whose content and preparation is provided for in the Central Government Budget Decree and for whose preparation there is a separate set of instructions. In their respective annual reports, ministries describe their own operational performance just like other agencies.

Even though the annual reports of agencies increasingly include a clear evaluation of the attainment of performance targets agreed with the ministry, the analysis of results is often defective: it has not been sufficiently explained, for example, what the reasons are for any nonconformities between targets and results or whether more appropriate targets are required or operations need to be enhanced.

The main thing in evaluating operational performance is not only the attainment of targets but also how much resources have been used to attain those targets. The information provided by cost attribution and especially activity-based costing helps pinpoint connections between targets, operations and resources. Cost-accounting reports and the information they contain are still not used enough in the planning and control of operations. Ministries in particular face a challenge in mainstreaming cost-accounting information in operational and financial planning, in performance management and in preparing for the central government budget proposal.

For example, the **Finnish Defence Forces** draws up an operational performance report each year for the period January 1 to July 31 by the middle of September and an annual review for the period January 1 to December 31 by the middle of March the follow-

ing year. In these, the attainment of performance targets is essentially reported according to the performance agreement. The reports are discussed at performance negotiation seminars in spring and autumn and in the performance negotiations proper between the Commander of the Defence Forces and the Minister of Defence. In addition to the performance reports and annual reviews, how well the performance agreement has been implemented is reviewed quarterly by the management group of the Defence Staff. The Defence Forces also prepares a monthly report on the use of appropriations for the Ministry of Defence.

In addition to written reports, ministries receive monitoring information at a variety of meetings and contacts over the year. The reporting thus consists of numerous component reports, including:

- the biannual report, usually prepared in early autumn and available at the autumn performance negotiations;
- economy monitoring data and statistics;
- annual report submitted together with the final accounts;
- individually agreed separate reports for instance on the progress of major projects or separate studies (e.g. customer satisfaction surveys and questionnaires).

## 7.2 Annual report and reporting of results

Every year, each ministry and agency in the central government prepares final accounts, which constitute the most important report in the accountability system. The final accounts contain:

1. The annual report, detailing operational performance and its development, and policy effectiveness;
2. Actual figures illustrating how well the budget has been implemented, in the central government budget implementation statement;
3. Statement of revenue and expenditure illustrating revenue and costs;
4. Balance sheet showing the financial situation on the date of the final accounts;
5. Additional information, or financial statements.

The annual report of an agency or institution details operational performance and presents an analysis of the final accounts and performance. The annual report contains performance data essential for performance management, such as data on effectiveness, efficiency, outputs and quality management, and human resources.

*The annual report is a final accounts document that extensively covers the accountability requirement for government agencies.* Under section 21 of the Central Government Budget Act, in their annual financial statements and reports on operations compiled in order to implement accountability, government agencies shall provide true and fair information on their compliance with the budget, their revenues and expenditure, their financial position and their operational performance (*true and fair view*).

### **Table of contents of the annual report (true and fair information):**

- 1 Management review**
- 2 Performance description**
  - 2.1 Policy effectiveness**
  - 2.2 Operational performance**
    - 2.2.1 Operational efficiency and its development**
    - 2.2.2 Outputs and quality management**
    - 2.2.3 Control and development of human resources**
  - 2.3 Results analysis and conclusions**
- 3 Analysis of financial statements**
- 4 Evaluation statement and confirmation  
statement on internal control**
- 5 Results of regular overall evaluations**
- 6 Summary of malpractices**
- 7 Signatures and deadlines**

The annual report is submitted to the ministry, to the State Audit Office and to the State Treasury immediately upon completion, and also published in the *central government administration Internet reporting service* maintained by the State Treasury (<http://www.net-ra.fi>). Ministries also submit an annual report, as they too are government agencies. With regard to the annual report we may observe the following:

- The annual report is a document included in the final accounts. It extensively covers the accountability of government agencies. The annual report is a concise description of the salient points that will provide a comprehensive and comprehensible view of the operational performance of the agency. The report is organized according to the basic performance criteria.
- The annual report is drawn up by all ministries and by those agencies for which a ministry has confirmed performance targets.
- The annual report presents true and fair information about the operational performance of the agency and an analysis of the final accounts and performance.
- The annual report is published in Netra together with performance data on agencies and administrative sectors. The latter are submitted to the database with automatically updated and editable reports.

## 1 Obligation to submit an annual report

Ministries and those agencies for which a ministry has confirmed performance targets must prepare an annual report on their operations by March 15 following the budget year. The final accounts and annual report of an agency are confirmed and signed by the senior management of the agency.

The purpose of the signing is to verify the agency management's confirmation of the final accounts. The final accounts of a ministry or agency are confirmed and signed by the head of the ministry or agency. If an agency has a board of directors or other management group constituting senior management and a decision-making body, this body signs the final accounts in addition to the head of the agency. The same procedure applies to an agency or institution which is not an independent unit but for which a ministry has confirmed performance targets.

## 2 Management review

*Central Government Budget Decree section 65 subsection 1 paragraph 1: A review of activity by management and especially of the most important changes that have occurred therein, and management's assessment of performance and the trend therein during the budget year.*

The purpose of the management review is to evaluate operations and performance in the past year. It should address major changes in operations and the operating environment and present the management's view on what the agency's performance has been like and how it has developed. The management review is by nature of an evaluation, giving the agency management an opportunity to present their personal views on the results of the past year and on the factors influencing them.

The management review should contain an evaluation by the management on how well the agency has attained its targets and what the reasons for any discrepancy between targets and actual results may be. The management should in particular address any changes in the operating environment, the development of operational effectiveness, quality management and human resources, and the social impact of the agency's operations. Also, the management should evaluate how the agency's performance has developed in recent years and how it is expected to develop in the near future.

## 3 True and fair view

The purpose of the performance description is to give a true and fair view of the operational performance of the agency. It contains the essential information on the operational performance of the ministry and the agency and of the attainment of the performance targets confirmed for the agency. *The performance description is organized and outlined in accordance with the basic performance criteria.*



The description focuses on the most essential and most important information which nevertheless gives a true and fair view of the operational performance of the agency. The performance description specifically reports on targets that can be influenced through the agency's own efforts and management. What is important is that the annual report contains a comparison with the preliminary performance targets in the budget proposal and the performance targets confirmed by the ministry (performance agreement).

The information agreed on in the performance agreement, which is the most essential for implementing the strategy, is the most important in the performance description, too. Also important are performance data which show how well the agency has managed its statutory duties and which involve a significant portion of the agency's resources (e.g. in person-years).

The performance description contains a discussion of the basic performance criteria. It includes all the essential performance information on operational efficiency (economy, productivity, profitability), the outputs of the agency and quality management, and the management and development of human resources. The societal impacts of the agency's operations are also reported.

Operational performance of the agency is measured using indicators, and thus indicators must be used in reporting on performance too. The information in the indicators can be augmented with verbal descriptions and evaluations.

The descriptions must feature the targets agreed in the performance agreements and a comparison with the actual outcomes. If possible, long-term targets should also be discussed. Performance development over a longer time period should also be given in order to provide sufficient performance information. Outcomes for at least two earlier years should be given for each performance target. This applies particularly to data provided as indicators.

## 4 Societal impacts of operations

Reporting on broad societal impacts is largely the province of the ministries. Ministries report on the attainment of the outcome targets in their operational branches and policy sectors principally in the Central Government Final Accounts Report as part of the performance description of their operational branches. Agencies and institutions also report on the effectiveness of their operations. The annual reports detail how ministries, agencies and institutions have contributed to the attainment of outcome targets in their operational branches. These reports link the societal impacts of the operational branch with the operational performance of the ministries, agencies and institutions.

*The extent of the effectiveness assessment depends on what the agency does.* Most agencies focus on operational performance in their performance descriptions, such as operational efficiency and quality management. However, in the reporting of ministries, the focus is more on societal impacts, as ministry duties are more about strategic control in their respective operational branches. Those ministries that also undertake operational du-

ties include operational performance data in their annual reports in addition to effectiveness data.

The effectiveness assessment also includes data on the effectiveness of transfers and capital expenditure. These include government support, government aid and discretionary government transfers, and similar transfers and capital expenditure.

Effectiveness data are important not only to ministries but to certain research institutions, universities and agencies that award considerable sums as transfers. Policy effectiveness reporting is largely based on monitoring and evaluation data. Studies and reports are often relied on. Effectiveness assessment should be based as far as possible on indicators, which can be augmented with verbal descriptions and evaluation data. In discussing effectiveness, presenting data for a single year is often not enough; instead, to demonstrate trends, data over several years should be presented as a time series, for example.

The challenge in reporting is obtaining data demonstrating effectiveness. If reliable international comparative data (e.g. the data sets produced by EUROSTAT) are available, they should be used particularly in setting targets. International comparative data can also be used as appropriate alongside outcome data in the reports.

## 5 Operational performance of the agency

The performance descriptions of agencies should focus on assessment of operational performance, which comprises operational efficiency, outputs and quality management, and human resources.

### *Operational efficiency data*

The purpose of operational efficiency assessment is to show how efficiently the agency or institution has operated. Targets should be considered against the resources employed, the essential point being to explore how efficiently resources have been allocated and used. Operational efficiency is described with indicators of economy and productivity. Also, the efficiency of chargeable activities and co-financed activities is shown with profitability and cost-equivalence data. Profitability and cost-equivalence is always reported on, unless the volume of chargeable activities is negligible.

### *Cost attribution and measurement*

Functional cost attribution provides the necessary conditions for measuring and evaluating operational efficiency. Measuring economy and productivity is easiest when it has been possible to turn operations and performances into a marketable product. Productization means defining those outputs that can constitute sellable products or services. Outputs (or groups of same) are created as the results of processes or functions. When the volume of outputs is known and the costs and person-years they require can be identified, their econ-

omy, productivity and development can be depicted with indicators. The volume of goods and services produced is reported under ‘outputs and quality management’.

Economy and productivity development can also be indicated with surrogate quantities if a function is such that it cannot be productized. In such cases, economy and productivity cannot be exactly measured, but various surrogate quantities — such as costs by area, by process, by function or by policy sector (person-years) — can be employed to show cost development for a particular function. Costs can then be assigned to areas, processes, functions or policy sectors subject to calculation.

### *Economy*

In measuring economy, the input factors first have to be converted into money. Then, the costs of producing outputs can be calculated, and then the unit costs (EUR per output). Costs should be presented by output or by output group. In some cases, costs can be presented by function or by task. Economy data should contain not only the target but also the actual outcomes for the report year and the two years before that. Changes in the data can be shown as percentages. What is important in measuring economy is to have costs correctly assigned in time. Cash-basis accounting is not sufficient; economy data must be based on cost data.

### *Productivity*

Productivity measures the relationship between input and output; for example, work productivity is the ratio of outputs produced to person-years used. If labour is the most important input, then it makes sense to report on work productivity in particular. Sometimes, if an agency or institution is highly capital-intensive, it may make sense to report on overall productivity or return on equity. Productivity measurements should take product and service quality issues into account. The outputs against which inputs are measured must be relevant for operational targets and for customer needs. Productivity data should contain not only the target but also actual outcomes for the report year and the two years before that.

### *Examples of measuring operational efficiency*

#### *Example 1: Measuring economy and productivity*

*In the administrative sector of the Ministry of Justice, prosecutor’s offices and the execution authorities measure economy in terms of the unit costs of matters processed (operating expenditure per number of matters processed) and productivity in terms of the number of matters processed per person-years used.*

#### *Example 2: Measuring economy*

*Organizations providing training (e.g. the Employment and Economic Development Cen-*

*tres, the Finnish Defence Forces, the Frontier Guard, the Emergency Services College, some universities) commonly measure the cost per training day, the cost of training programmes or costs per number of persons in training.*

#### *Example 3: Measuring economy*

*In the administrative sector of the Ministry of Transport and Communications, things measured include unit costs of basic road maintenance (cost per road kilometre), unit costs of track maintenance (cost per track kilometre) and unit costs of shipping lane maintenance (cost per shipping lane kilometre).*

#### *Example 4: Measuring productivity*

*The Finnish Vehicle Administration measures productivity in its production of services. It measures the productivity of registrations, licence granting and tax decisions by dividing the number of decisions made by the number of person-years used in service production. It further measures the economy (efficiency) of these products by dividing the costs (EUR) by the number of decisions made.*

### **Profitability and cost-equivalence**

The profitability of chargeable activities is measured as the difference between sales proceeds and the cost of production factors used (cost-equivalence) and as a ratio (cost-equivalence ratio). These indicators are also used in co-financed operations, in which case the cost-equivalence and cost-equivalence ratio show how much financing has been received from other agencies or off-budget sources, and how much the agency or institution itself has contributed.

‘Co-financed operations’ refers to all voluntary activities of an agency that are financed from both agency appropriations and outside funds. Chargeable activities are never co-financed, however (Ministry of Finance working group memo 19/2003).

In order to monitor and illustrate profitability and cost-equivalence and their development, cost-equivalence calculations are needed. The calculations are given in the annual report of the ministry or agency or as a separate section at the end. The annual report must also contain a discussion of the calculations showing how the set targets have been attained and how any surplus or shortfall has occurred. All profitability and cost-equivalence calculations must contain the target and outcome for the report period and the outcomes for at least two previous years.

### **Chargeable activities**

*Central Government Budget Act section 15 subsection 2: Government agencies shall arrange to monitor the profitability of chargeable activities so that their annual results can be presented in connection with the annual accounts, unless the chargeable activity is in-*

*significant. (165/1992). Regulation of the State Treasury 21.10.2003. See also the Ministry of Finance instructions: Toiminta- ja taloussuunnitelmien sekä talousarvioehdotusten laadinta (Preparation of operating and financial plans and of budget drafts, March 31, 2004, TM 0402).*

Cost-equivalence calculations on chargeable activities are drawn up separately for the following areas:

1. Outputs under public law;
2. Outputs managed as business ('other performances' as referred to in the Act on Criteria for Charges Payable to the State);
3. Payments determined or outputs priced on the basis of the special acts, in which case every special act is considered as its own area.

If price support as referred to in section 7 subsection 1 of the Act on Criteria for Charges Payable to the State was available for producing outputs in area 2 above, separate calculations must be prepared on price-supported and non-price-supported outputs. If an area of chargeable activities generates enough revenue to be of significance to central government finances, the cost-equivalence calculation of this area must be presented divided into groups of outputs. Outputs under public law priced at below cost are considered a group unto themselves (which can be further divided into groups of outputs by the nature of the outputs, if the revenues are significant enough). A cost-equivalence calculation is structurally based on a statement of revenue and expenditure as per commercial accounting, where expenditure, i.e. costs assigned to the fiscal year under review, is deducted in a certain order from the revenue. The revenue is assigned to the fiscal year in which the output to which it pertains is delivered, while costs are attributed to the fiscal year in which the output to which they pertain was produced. The cost-equivalence calculation included in the final accounts must be drawn up according to a regulation issued by the State Treasury (October 21, 2003). Briefly, a cost-equivalence calculation for chargeable activities consists of the following:

+ revenue from the chargeable activities  
- separate costs  
- share of the joint costs  
= cost equivalence

(For outputs managed as business, any price support granted and used must be included, and cost-equivalence after the use of price support must be indicated.)

### *Co-financed activities*

The revenue from all co-financed projects is included in the cost-equivalence calculation for co-financed activities. If the revenue is significant, income and expenditure can be analysed by funding source.

Briefly, a cost-equivalence calculation for co-financed activities consists of the following:

+ revenue from the co-financed activities  
 (=financing from the funding providers)  
 - separate costs of projects  
 - share of joint project costs  
 = cost-equivalence

## 6 Data on outputs and quality management

Outputs and quality management includes the essential data on the outputs (goods and services) produced by an agency or institution and their volume. Information on the service capacity of the agency, on the quality of its outputs, and on customer satisfaction is also given.

Establishing volumes of outputs requires the operations to be productized and the number of productized goods to be counted. If the quantity of public goods produced cannot be established in all cases, applicable surrogate quantities should be used to represent the quantity of public goods produced (for instance, the number of kilometres in maintained shipping lanes in the maritime administration, or the number of hours on patrol or in border surveillance in the Frontier Guard).

Service capacity refers to the agency's or institution's ability to serve society as a whole and its customers in particular. It involves customer satisfaction with the agency's services and customer satisfaction with the agency's capacity for serving its customers. More generally, we may describe this as the agency's ability to fulfil customer expectations. Service capacity can also be evaluated from the perspective of customer effectiveness, i.e. how well operations fulfil customer expectations.

In order to present data on service capacity, the customers must be identified. A customer can be an individual for whom a product or service is produced, or the customers can consist of citizens and taxpayers in general. In certain cases (particularly with public goods), service capacity should be studied both from the perspective of the users of the performances (perceived quality) and from the perspective of citizens/taxpayers.

Measuring service capacity may be based on customer satisfaction surveys conducted at regular intervals, on direct customer feedback in service situations, on information gained through various feedback channels (such as the Internet), on customer interviews,

and so on. What is essential is that the methods employed provide a comprehensive view on how well the agency serves its customers and meets the expectations vested in it. These results should be shown as indicators, which can be augmented with verbal descriptions.

Quality management may involve presenting essential data on the quality of operational processes through quantities such as throughput times, delivery times, processing times, waiting times and how error-free the outputs are. More comprehensive information on operating quality and process quality can also be given (for instance by using quality award criteria or quality standards) in an annual report. If quality award criteria are used and external evaluators are employed, the results can be presented as an overall point score.

## 7 Management and development of human resources

The management and development of human resources mainly involves presenting indicators based on the human resource accounts (see *Henkilöstövoimavarojen hallintajärjestelmä* [Human resource management system], Office for the Government as Employer 3/2001). The annual report should contain data on the number of staff, staff structure, staff costs, wellbeing at work, competence and other intangible assets, and operational renewal. Basic staff data should be included in the annual report regardless of whether targets have been set for them in the performance agreement.

The human resources management system and the *human resource accounts* based on it constitute

- a set of indicators for development and decision-making in strategic human resources management, for assessing and describing the state of the staff and identifying development needs, for setting targets in the area of human resources and monitoring them;
- an early-warning system to spot negative trends and enable early intervention (e.g. in job satisfaction); and
- a practical management tool for staff and human resources.

The human resources management system draws the attention of management to staff and how to manage it best, and also acts as an efficient guideline to management practices. Reliable and comprehensive information on human resources demonstrates how well the management is working in practice.

The human resource accounts take into account the whole of human resources management and development. They are a tool for performance management, staff planning and the management of wellbeing at work. Over the next ten years, nearly half the existing central government employees will leave due to retirement or to finding new jobs elsewhere. Each organization should be aware of how much and what kind of staff it will be needing in the near future. Knowing how much staff with what kind of expertise will be leaving the organization in the near future, preparations for recruitment measures or for

the development of the competence of existing staff can be made. A separate addition to the human resource accounts handbook has been published, *Osaamisen johtaminen osana valtion henkilöstötilinpäätöskäytäntöä* (Competence management as part of the central government human resource accounts practice, Office for the Government as Employer 8/2000).

**The Office for the Government as Employer** offers agencies and institutions the VMBaro staff survey system free of charge; with this system, an agency can obtain indicators through which to monitor the job satisfaction of its staff and the functioning of its payroll system, and to gain comparative information through various groupings.

## 8 Analysis of performance information and conclusions

In the annual report, achieved performance is analysed and conclusions and development proposals based on the analysis are presented. Performance can be analysed for example by task area or by function. The following points at least should be addressed in the performance analysis:

- differences between targets and outcomes, and reasons for these;
- ratio of outputs produced to resources used;
- ratio of operational societal impacts to resources used;
- ratio of operational performance to policy-effectiveness performance.

Conclusions on how to develop control and operations are presented on the basis of the analysed information.

## 9 Analysis of financial statements

*Central Government Budget Decree section 65 subsection 1 paragraph 6: An analysis of financial statements, in which factors apparent from the financial statements regarding the trend in, and structure of, finances and the connections between finances and performance are explained.*

Points in the financial statements regarding the development and structure of the finances and the connections between finances and performance are explained in the analysis. The purpose is to analyse how and where the money has been used. The object of the analysis can be, for example, the financing structure, the budget outturn, the statement of revenue and expenditure or balance sheet information. Analysis here involves explaining why the figures have changed, not so much how much they have changed. Also, the calculations should support observations elsewhere in the final accounts and conclusions on how to develop operational performance and finances.



### 7.3 Good practice: Internal performance management and accounting at the National Land Survey of Finland

**The National Land Survey of Finland** produces basic information for society. It is an agency subordinate to the Ministry of Agriculture and Forestry that applies the net budgeting principle and is subject to performance management. It consists of the central administration, six national support and service units and 13 district survey offices. The National Land Survey of Finland employs about 1,830 persons at 35 offices. The institution covers slightly over half of its expenditure with revenue from customers. In 2004, it accumulated EUR 49.4 in revenue and accrued EUR 97.0 million in expenditure. Surveying production, i.e. the collecting of terrain information and maps, surveys and the maintaining of the cadastral register, is highly IT-intensive.

#### *Management and development are the key*

The basic task of management is to create the optimal conditions and potential for staff to work productively and efficiently. The National Land Survey of Finland has invested heavily in the development of its organization, processes and IT systems in order to achieve a process-like system and teamwork, the aim being to improve the quality and coherence of products and services, to improve productivity and customer service, and to cut costs and processing times.

With a view to systematic development of operations and quality, the National Land Survey of Finland participated in the Finnish quality award competition in 2004. An operational description of the NLS was drawn up for the competition, constituting the competition application.

The independent evaluators of the quality award competition performed an evaluation visit to observe further the strengths and development needs identified in the operational description. The NLS scored 450-500 points in the competition, which entitled it to the honorary award *Recognised for Excellence in Europe*. According to the evaluation, the NLS is of good quality in the European context. Its greatest strengths are its process-like procedures, its customer-oriented approach, its use of IT and its staff development.

#### *Calculation system supports management*

For performance management to work well, an institution must have an advanced and functioning cost-accounting system that supports management and produces information required for the planning and monitoring of operations and finances.

The National Land Survey of Finland gains slightly over half of its financing from revenue from customers, the rest being covered in the central government budget. It employs a client-supplier model in internal performance management, with the central administration as the client. Thus, budget-financed activities are treated and evaluated in cost attribution just as if they were chargeable activities. The only difference is that in budget-financed activities external revenues are replaced by budget revenues, which equal the price paid by the central administration to the units for the services it orders. Using this operating model means that the same planning and monitoring practices can be used for both customer-financed and budget-financed activities. The internal income statement and the indicators in it and derived from it (see Figure) is an important control tool in performance management.

The core of the internal accounting system is the product and service classification, which contains about 130 monitoring objects that can be grouped into process-specific monitoring groups which support the institution's process organization. Revenue, expenditure and costs are assigned to the products and services as accurately as possible. Precise monitoring of working hours is a key tool in the assignment of costs. Correct assignment of pay costs is highly important, because over 70% of the costs are staff costs. Shared costs are assigned to products according to the source of costs, mainly on the basis of working hours used. The remaining costs are assigned on a cost-driver basis. Handling investments and assigning their costs to products is also in an advanced state of development. Internal accounting also contains information on performances and resources.

Based on strategic targets, the National Land Survey of Finland has developed a scorecard covering the component categories of performance that is used to monitor operating and financial trends through major performance indicators.

### *Performance bonus for exceeding performance targets*

The performance management mechanism provides excellent tools for the implementation of institution-level targets in its units. Annual control focuses on the importance of effectiveness, revenue, costs, result, output and quality. Performance-related pay, used since the early 1990s, is an essential part of internal performance management. The performance agreement includes a performance matrix in which the indicators and criteria for each component category are defined. If a unit exceeds its performance targets, it can be paid a performance bonus amounting to between 1.5% and 4.5% of annual pay. The performance matrix can be used to promote the attainment of desired targets by weighting the indicators related to the most important targets that particularly need to be attained.

Figure. Internal income statement of the National Land Survey of Finland

|   | BUDGET-FINANCED OPERATION      |  |  |                                  | CHARGEABLE ACTIVITIES          |  |                        | SHARED           |  |                  | TOTAL                   |  |
|---|--------------------------------|--|--|----------------------------------|--------------------------------|--|------------------------|------------------|--|------------------|-------------------------|--|
| Revenue, chargeable activities            |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Revenue, internal                         | Cadastral information          |  |  |                                  | Deliveries proper              |  |                        | Support services |  |                  | Internal calculation    |  |
| Revenue, budget                           | Terrain and border information |  |  |                                  | Other outputs under public law |  | General administration |                  |  |                  |                         |  |
| Revenue, other                            | Development                    |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Turnover                                  |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Staff costs                               |                                |  |  | Production support               |                                |  | Market outputs         |                  |  | Unit joint costs | Deduct internal billing |  |
| Other costs                               |                                |  |  | Other budget-financed activities |                                |  |                        |                  |  |                  |                         |  |
| Internal services                         |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Change in inventories                     |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Production for own use                    |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Direct costs                              |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Percentage of the joint costs of the unit |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Gross margin and gross margin %           |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Capital costs                             |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Percentage of the joint costs of the NLS  |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Total costs                               |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
|   |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |
| Profit/loss and profit/loss %             |                                |  |  |                                  |                                |  |                        |                  |  |                  |                         |  |

## 7.4 Internal control and risk management

**Central Government Budget Decree section 69 (2.3.2000/263.)** *The agency management shall ensure that the proper procedure is followed by government agencies relative to the scope and content of their finances and operations and related risks (internal control) in order to ensure:*

- 1) *the legality and results of the finances and operations of government agencies;*
- 2) *the security of the funds and assets managed by government agencies; and*
- 3) *the true and fair view of the finances and operations of government agencies required for each government agency's management and external steering.*

*The procedure shall also comprise the management of assets that the government agency is responsible for or mediates, and any functions and tasks of the agency that the agency has delegated to other government agencies, corporations or private parties or is otherwise responsible for.*

*The procedures referred to in subsection 1 followed by a government agency acting as an accounting agency shall also include the accounting agency duties assigned to it.*

**Central Government Budget Decree section 69a (7.4.2004/254.)** *The effects on the activity of government agencies of European Community law shall be taken into account*

*in the internal control procedures. In addition, general standards and recommendations regarding internal control shall be taken into account.*

Internal control and risk management, which is closely related to it, form part of the normal control and management of the operations of agencies and institutions; they are the means with which the organization aims to ensure the attainment of its targets. Internal inspection helps the management ensure that the internal control system is appropriate and sufficient. Internal control and evaluation can involve all control systems, processes and functions of the organization. The management must see to it that internal control procedures appropriate to the scope and content of the finances and operations of the agency or institution are undertaken to ensure the following:

- the legality and performance of the finances and operations of the agency or institution;
- the securing of funds and assets controlled by the agency or institution; and
- true and fair information on the finances and operations of the agency or institution required for managing same.

The generally accepted standards and principles of internal control require the control to be reasonably dimensioned with respect to the risks and that attitudes in the agency are amenable to internal control. Also required are professional competence, professional ethics, and targets and monitoring for the internal control function.

The internal control procedures also include the management of funds for which the agency is responsible or which the agency transfers, and any functions or tasks of the agency that have been delegated to other agencies, organizations or private individuals or for which the agency is otherwise responsible. The agency must also see to sufficient internal control and risk management regarding cross-sectoral and co-financed activities.

### *Internal control assessment and confirmation statement*

*Central Government Budget Decree section 65 subsection 1 paragraph 7: An assessment of the appropriateness and adequacy of internal control and of the risk management entailed therein and a statement of the status and the most essential developmental needs of internal control.*

The management of an agency is responsible for the appropriateness and adequacy of internal control and risk management. The annual report includes a specific internal control assessment and confirmation statement, in which the senior management of the agency addresses the status and most essential developmental needs of internal control. It also includes a conclusion as to how well internal control attains its targets and how it should be developed, and thus constitutes the management's opinion as to what the status of internal control and risk management in the agency is. The statement must give a true view of this status regardless of whether the conclusion is positive or negative.

The statement is based on the targets set for internal control in section 69 of the Cen-

tral Government Budget Decree. The management must use the framework and criteria it has deemed fit to assess how well internal control attains the targets set in the Decree and declare in its statement whether the internal control and risk management procedures are sufficient and whether they attain their targets. The statement must also detail any shortcomings in internal control and risk management and contain a description of the framework or assessment model employed. The frameworks used should be models contained in standards and recommendations on the procedural quality of internal control. How the assessment is carried out should be proportioned to the duties and operating environment of the agency and the inherent risks.

For example, the uninterrupted running and credibility of an agency depends on sufficient information security. The importance of information security in managing an organization, ensuring its operating capacity and safeguarding its uninterrupted running and performance is constantly increasing. Information security guarantees the integrity, usability and confidentiality of the information handled in the organization. From the perspective of citizens and service users, the task of agencies is to produce online services whose security the customer can rely on and in whose production the fundamental rights of citizens are respected.

*Information security and performance management, VAHTI 1/2005, a recommendation published by the Ministry of Finance, details the main principles of information security development and how they are connected with performance management, the management of agencies and operational evaluation. The recommendation considers information security and information management as a component of the management of agencies and institutions, service production and quality management.*

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/08\\_other\\_publications/20060320Inform/name.jsp](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/08_other_publications/20060320Inform/name.jsp)

### *Summary of malpractices and offences*

The annual report should contain a summary of malpractices and offences observed, of criminal investigations and trials, and of any other measures undertaken because of malpractices or offences. A summary of any recovery proceedings should also be included. In addition to being entered in the annual report, malpractices should always be reported to the appropriate authorities who require this information for the execution of Finland's international obligations or the performing of their statutory duties, and also to the relevant ministry and the State Audit Office.

## 7.5 Netra online information service

*The Central Government Budget Decree stipulates that agencies and ministries must submit their operational and financial plans, final accounts, annual reports and statements of the ministry on the final accounts to the Netra online information service. The relevant provisions are in sections 14, 63, 65a and 66i of the Decree.*

Valtokonttori  
Statskontoret  
State Treasury

## NETRA CONTENTS

- **Central government political control**
  - Government Programme and Government strategy document, linked from the Prime Minister's Office website
- **Central government finances and staff data**
  - Dynamic reporting based on Netra databases
  - Linked from the Ministry of Finance website
- **Central government performance data**
  - Dynamic reporting based on Netra databases (to be introduced in 2005-2006)
- **Planning and monitoring documents linked from ministry and agency websites**
- **Additional information: links to off-budget data**
  - Local authority finances and other public administration
  - Data on the national economy, etc., from Statistics Finland
  - EU and international data and evaluations



### *What is Netra, to whom does it cater, and what does it contain?*

*Netra is the Internet reporting service of the central government administration which caters in particular to the Government, ministries, agencies and institutions. Netra is open to all Internet users. It has substantially increased the transparency and publicity of the operations of public servants. Netra contains data on the finances, performance and staff of the central government administration, ministry and agency planning and monitoring documents, and other essential data on the operations and finances of the central government administration, all accessible through a single portal.*

The financial data is centrally derived from the central bookkeeping and the budget-authorization bookkeeping. Data on staff numbers and structure come from the central government staff registers. Performance management documents and other planning and monitoring documents are accessed from Netra through links to the websites of the respective agencies. Netra also collates other documents important for control of central government activities. Performance data are collected from ministries and agencies and placed in the Netra repository.

### *How does Netra help in performance management?*

The purpose of Netra is to support the planning, monitoring and management of, and decision-making in, the Government, ministries and agencies. The information provided by Netra helps perform various kinds of analyses on the connections between operational performance, finances, staff and other resources. Because data on all agencies and administrative sectors are available through a single interface in Netra, it is a good tool for benchmarking. The information content is available and useful both for planning of future operations and for preparation of monitoring reports. Netra contains data on the outcomes of previous years, which enable the tracing of past trends.

### *Performance reports and financial reports in Netra*

The performance data available in Netra includes preliminary performance targets for administrative sectors and agencies (budget proposal), targets agreed in performance agreements, performance outcomes and analyses of them. Netra can also display longer-term targets (operational and financial planning period). In principle, all the matters for which targets are set in the budget proposal and performance agreements, and whose progress is reported in performance reports and performance reviews of the administrative sectors, can also be found in Netra performance reports.

In the reporting, performance data is organized on the basis of the basic performance criteria. Performance data are also grouped according to groupings in the budget (main title, class, item) and the Government strategy document. Performance data can also be viewed by various kinds of functional grouping (task areas, policy sectors, etc.) or according to the perspectives of agency or ministry scorecards, depending on the needs of the administrative sectors and agencies. All reporting functions are governed by user needs.

In Netra performance reporting, administrative sectors and agencies can use those indicators that they ordinarily use in performance measurement. Reports can be based both on measurable indicator data and on verbal qualitative performance targets and outcomes. Verbal performance data should be as concise and to the point as possible. All data are stored in a single central database from which the program retrieves the data requested by the user.

Netra financial reports enable ministries and agencies to monitor, for instance, the use, budget data and accrued expenditure in commercial accounting concerning all appropriations. Reports can be customized according to user needs. Financial data and performance data can, to some extent, be combined in a single report. Netra also provides access to planning and monitoring documents for all agencies and administrative sectors. This can help in shaping an overall view of the operations, plans and reports of a particular agency or administrative sector.

Financial data and appropriations monitoring data can be available to the ministry in real time. For instance, the **Ministry of Trade and Industry** monitors the authorizations and financing situation at the Technology Development Centre of Finland (Tekes),

which awards technology development grants, on a monthly basis directly through the Tekes monitoring system.

Development of the KOTA information system of the **Ministry of Education** was launched in 2002. Its target was to develop the system from a statistics database to an interactive system supporting university performance management. The revised KOTA system is extensively used in the preparation and implementation of the performance management process between universities and the Ministry of Education. The preparation and implementation of the university performance agreement period 2007-2009 is wholly conducted with the new information system. The KOTA system provides information on two levels:

- KOTA-Online is a public database service that provides statistics and indicator data to anyone accessing it. New indicators are being developed as part of university performance management;
- HUT Extranet is a totally new information processing system shared by universities and the ministry, used in the preparation of performance agreements and performance targets, in the preparation of statements on the source and application of funds, in performance reporting, in the preparation of statements of the ministry on the final accounts, and in the handling of electronic documents.



## 8 HANDLING THE FINAL ACCOUNTS AND STATEMENT OF THE MINISTRY

*Statement of the ministry on the final accounts* (Central Government Budget Decree section 66i subsection 1): By the 15th of June following the budget year, the ministry shall annually issue a statement, including the grounds for them, on the final accounts of the accounting agency and extra budgetary central government funds activity in its administrative sector; and of the measures occasioned by the final accounts and the auditors' report of the State Audit Office on them, and by other accounts and statements concerning the activity and finances as well as the final accounts of the accounting agency or of the extra budgetary fund. The ministry is required to prepare and acquire the necessary reports and evaluations.

### 8.1 Content of external performance evaluation in performance management

Evaluation of the performance of a ministry or agency is based principally on performance reports and annual reports prepared by agencies and, to some extent, on other final accounts material. Some agencies prepare a separate performance report immediately at the beginning of the year, reporting in concise form on how the performance agreement targets have been attained and on any nonconformities. The annual reports prepared as part of the final accounts are usually more detailed and cover operational performance more extensively independent of annual targets.

According to the budget legislation, a ministry must issue a statement on the final accounts of its subordinate agencies; in this, it requires the audit report of the State Audit Office and, if necessary, an independent external evaluation on the quality of the final accounts and the performance data and on how the results have been achieved. Any external reports or evaluations are always commissioned by a ministry and conducted to the extent specified by the ministry.

The purpose of the external performance evaluation requested by a ministry is to provide the ministry with more extensive data through which to ensure that performance targets have been attained, that an agency has performed well and that the agency will be able to continue performing well in coming years. A report or evaluation commissioned by a ministry can be considered to comprise both an audit in the traditional sense, focusing on finances, and a broader inspection of feasibility. The principle is that an *evaluation performed by an external party complements the agency's own performance reporting and also critically examines the quality of the performance data.*

The State Audit Office conducts its own audit in every ministry and agency every year. In addition to this, it is the business of the relevant ministry to prepare and obtain the required reports and evaluations based on the ministry's assessment of what information is required. The distinction between an inspection and an evaluation is vague, but there are certain differences in their principles and emphases. An inspection aims simply to verify that operations conform to standards and agreements. An evaluation is intended to find out how successful operations are in relation to existing needs or set targets. The relationship between the two functions can be summarized in a table as below. Here, evaluation is understood as being based on systematic collecting of information to establish how successful operations are, using research tools.

| Properties                   | Inspection   | Evaluation   |
|------------------------------|--|--|
| Commissioner/<br>implementor | Usually no actual order / Conducted by those authorized to do so (e.g. auditors)   | Controlling body or operational management / External, independent expert (e.g. consultant company)        |
| Primary target               | To ensure that operations conform to legislation, decisions and instructions       | Ensures and improves the quality and performance of operations   |
| Conclusions based on         | Direct comparison between clear normative requirements and facts on the operations | Use of documented research methods   |
| Conclusion criteria          | Often derived from standards and sometimes from targets, if they are clear         | Derived from both targets and parties' expectations, and from requirements set for high-quality operations |
| Sources of information       | Largely existing materials produced by the bodies being inspected                  | Material from many sources, including new material   |

The statement of the ministry on the final accounts and feedback to the agency involve both of the following:

- *inspecting financial management and operations* (verifying the correctness of the final accounts, the quality of reporting and the sufficiency of performance data); and
- *evaluating operational performance* (investigating the feasibility of resource use, the attainment of performance targets and operational performance).

An audit, by definition, meets at least some of the information needs detailed in budget legislation provisions. Thus, the information provided by the audit and inspection conducted by the State Audit Office should be taken into account in the development of performance management.

Ministry-commissioned performance reports or performance evaluations stem from the information needs of the ministry, and thus they can vary according to the situation, the agency and the budget year.

The quality of an agency's reporting, experiences gained from it and any 'grey areas' observed by the ministry can have a significant impact on the content of reports or evaluations commissioned. Ministries are required to be active and to define their information needs themselves. The active approach is necessary above all because ministries must issue a public statement on the operations and performance of agencies, institutions and funds subordinate to them, based on information available to them.

The statement of the ministry on the final accounts is a new performance management tool which can address at least the following:

#### **A. Performance development**

- a direct assessment of how the performance of an agency or institution has evolved, using essential effectiveness, economy and quality factors and indicators or evaluation data (e.g. over a period of three years);
- an assessment of how an agency's or institution's performance capacity has evolved.

#### **B. Estimates of operational performance**

- a direct assessment of how well the major performance targets of the budget year have been attained;
- an assessment of nonconformities and of the credibility of the reasons given for them;
- an assessment of separately agreed or selected points such as how well the management system functions, how systematic the development efforts are, how high customer satisfaction is, and so on.

#### **C. Quality of the reporting**

- scope of reporting concerning the attainment of performance targets: does it cover the attainment of all the agreed performance targets?
- have any nonconformities been clearly presented, with reasons given for them?
- has the significance of any nonconformities been analysed (e.g. whether the nonconformities are random and occasional or a symptom of a more permanent decline in performance)?

### **D. Adequacy and reliability of performance data and basic material**

- quality and reliability of the accounting system and other information collation and compilation of statistics;
- assessment of the adequacy and relevance of the indicators or evaluation materials used in relation to the performance targets set;
- how true and fair are the data in the performance report and the annual report in view of the requirements of the Budget Decree, the set annual performance targets and the domain of the unit?
- reliability of the financial statements (calculation of budget outturns, statement of revenue and expenditure, balance sheet);
- have the appropriate analyses and conclusions (on statistics or qualitative material) been made from the basic material (i.e. are the conclusions consistent and clearly documented)?

The content of the statement of the ministry and the scope of the reports needed depend on the content and nature of the final accounts and annual reports of agencies. On the other hand, the evaluations also govern the reporting of the agencies and institutions. The reports and evaluations obtained by the ministry thus cater above all to the information needs of the ministry in its performance monitoring and in the determination of the accountability of the agency.

With large profit centres, the significance of the external performance evaluation is probably greater. Such agencies and institutions include at least those whose operating expense appropriations or public funds channelled through them are substantial, or who have a large clientele or operational volume. An evaluation can also be an expert statement lighter or more restricted in form and content than an evaluation report proper. An expert can present a statement on the basis of the final accounts material, other information on operations, and interviews.

Because there are no existing procedures for external performance evaluation, the content of the reports and evaluations are taking shape gradually, being determined by expediency and the information need of ministries in preparing their statements on the performance and accountability of the agencies subordinate to them.

## 8.2 Handling of agency final accounts at the ministry

The officials responsible for the performance management of an agency and financial management experts are usually those who participate in the handling of the final accounts of that agency at the ministry. It is important for comprehensive handling of the final accounts that:

- all staff who have a clear task in the performance management of the agency or institution participate in the handling;
- the handling is performed systematically and in a coordinated fashion, combining the operational and the financial perspectives;
- the observations can be discussed sufficiently broadly for an overall view to be formed at the ministry; and
- the statement of the ministry is drawn up as feedback to the agency on the basis of the handling.

The statement of the ministry on the final accounts is signed by the minister and by the Secretary of State. Some ministries already follow the practice that the written feedback is discussed in the ministry management group. This procedure ensures that the ministry as a whole is committed to the content of the feedback and that viewpoints important for the various sectors are included in the statement.

## 8.3 Public statement of the ministry and feedback to the agency

***Statement of the ministry on the final accounts*** (Central Government Budget Decree section 66i subsection 2)

In its statement on the final accounts, the ministry shall provide the following:

- 1) *an estimate of performance and the trend therein and of the outturn of the performance targets set in compliance with section 11;*
- 2) *a statement as to whether the grounds for reporting performance are appropriate with respect to steering and accountability and the ministry's position on development needs;*
- 3) *the measures that should be taken by the accounting agency or an extra budgetary fund and by any government agency belonging to the accounting agency due to the final accounts and to improve performance;*
- 4) *the measures to be taken by the ministry because of the final accounts and to improve performance.*

Smoothly running performance management and dialogue between ministry and agency includes feedback given by the ministry on the performance report of the agency. The statement of the ministry on the final accounts required in the Central Government Budget Decree includes, among other things, an assessment of the performance of the ministry, agency or fund, the attainment of set performance targets and development needs in performance reporting. The ministry also notes what measures should be undertaken as a result of the final accounts and in order to improve performance. These proposed measures can apply to both parties to the performance agreement, the ministry and the agency. The ministry publishes its statement by June 15 in the year following the budget year, and the guidelines in the statement can thus be taken into consideration in preparing the next budget proposal and also as background material in the Parliamentary debate on the central government final accounts, as necessary.

According to the budget legislation provisions, the ministry always gives written feedback on the basis of performance information it receives and has obtained itself. The reasoning behind this is that this makes the performance dialogue between ministry and agency more dynamic. In drawing up written feedback, it has to be carefully considered at the ministry in what respects the agency's operations should be encouraged and commended on the one hand, and where there is clearly scope for improvement on the other. From the agency's viewpoint, clearly drafted feedback helps dispel any uncertainties as to what the ministry's opinions and expectations are, and also creates an impression of how well the agency's performance satisfies the ministry. Written feedback is also more compelling than oral, making it easier to recall the evaluations and proposed measures in the following year. Any shortcomings or observations noted in the statement of the ministry must be addressed before the next evaluation.

The following is an example of the structure and content of the statement of the ministry on the final accounts and the feedback document:

**1. Assessment of attainment of the set performance targets and of operational performance**

- a) outcome targets;
- b) operational performance targets and targets related to management of human resources;
  - attained performance targets and their significance for operations;
  - targets which have not been attained and their significance for operations;
  - ministry assessment of performance and its development and of attainment of performance targets.

## 2. Quality of the final accounts and of the annual report and their development needs

- scope of the reporting in view of the performance targets of the budget year and of operations excluded from the performance agreement;
- how clear and illustrative the report is;
- shortcomings in the information in the report;
- quality of monitoring material and evaluation material (e.g. use of indicators, development data);
- performance analysis and specification of the reasons for any nonconformities;
- how realistic and demanding the set target level is.

## 3. Current challenges for the agency

- progress of the agency towards the strategic targets of the administrative sector or strategic targets agreed in the performance agreement;
- have the measures proposed in the previous feedback been taken up, and are the measures undertaken sufficient?

## 4. Measures and development proposals of the ministry

Final accounts, and reports and statements on operations and finances (e.g. audits by the State Audit Office, inspections by the EU Commission, evaluation reports, etc.)

Realization of accountability and conclusions:

- implementation of development proposals made in previous feedback, or correction of shortcomings;
- smooth flow of reporting, monitoring methods and evaluation methods;
- improving the efficiency or effectiveness of operations;
- appropriate use of resources;
- horizontal co-operation;
- unclear results, need for further clarifications;
- performance targets for the following year.

In its statement, the ministry also gives feedback on operations beyond the scope of the performance agreement in the budget year under review. *The performance agreement does not necessarily cover all the agency's operations, but performance development must be ensured for the entire task area of the agency.*

For example, the **Ministry of Trade and Industry** has been publishing a statement on the performance of its administrative sector since the 2001 budget year. Since the 2002 budget year, this has also been published on the ministry website in June in the follow-

ing year.

The statement of the ministry consists of a two-page summary discussed by the management group and signed by the ministry and the Secretary of State. The statement also includes assessments for each agency and institution (21 in all), each about six pages long. These assessments are based on templates designed to give them a uniform structure and to conform to the requirements of the Central Government Budget Decree. The statement further includes a summary of the audit reports from the State Audit Office concerning the agencies and institutions.

The summary contains, firstly, an assessment of how well the operations of the agencies and institutions coincide with the strategic targets of the administrative sectors. Secondly, there are individual positive features and significant negative nonconformities singled out for attention from the agency-specific assessments. The ministry also draws attention to making performance targets more tangible, to improving the measurement of performance, and to assessing performance more critically. The summary of the audit reports of the State Audit Office serves to underline the need to undertake sufficient action to correct shortcomings that have already been pointed out earlier.

A critical approach is employed in the agency-specific assessments too, but at the same time there is a policy of presenting ‘at least three plus points’ which the ministry can commend. The assessments are presented and discussed by the management groups or boards of the agencies and institutions.

### 8.4 Joint handling and discussion between ministry and agency

On the basis of the reports, what the agencies consider a problem in performance management are the strategic guidelines and the lack of dialogue between ministry and agency. It is considered that the application of performance data requires a mutual understanding between the parties of what the results mean and what measures are required of each party. In order to improve performance management and the performance itself, *measures are often required of both parties*, both ministry and agency.

The careful handling of the final accounts at the ministry and the written feedback of course do not remove the need for dialogue between ministry and agency. Results must be analysed together, cause and effect considered, and operational conclusions made. Just as the drawing up of a performance agreement rests on the parties’ shared view of how to direct operations and how to balance resources and performance targets, evaluation in order to be useful must be based *on a shared interpretation of the observations and of the measures required*.

In the technology and innovation policy division of the **Ministry of Trade and Industry**, a discussion is held with the management group or board of each agency and contract organization. For the **Technology Development Centre of Finland** (Tekes), the pro-



cedure adopted involves not only written feedback but also oral feedback and discussion. A ministry representative attends a meeting of the Tekes board to comment on the written feedback. At these sessions, known as 'assizes', board members can ask questions about the feedback and talk to the ministry representative concerning any development measures. The ministry has seen it necessary to keep not only the management but also the board up to date on what the views of the supervising body or 'owner' are. Discussions are usually also undertaken with the management of the major profit centres in addition to the board, so that the development measures proposed in the feedback can be translated into practice and launched more quickly.

## 9 ACCOUNTABILITY AND HOW IT WORKS

### 9.1 Accountability of the management

In a sound performance management system, there are consequences for the performance-managed parties for both good and poor performance. In practice, under normal circumstances mutual trust and dialogue is sufficient to sustain accountability. However, systematic and effective means for bringing the agency and its management to account for the commitments entered in the performance agreement are also needed. The consequences may also apply to the ministry, if the ministry has neglected its controlling role, or if the potential for performance has been substantially diminished through decisions taken by the ministry.

*It must thus be possible to point to a responsible party when defining accountability.* According to the standard model, accountability requires separation between the responsible party and the evaluator of responsibility. The roles of supervisor and performer must be clearly distinct. Accordingly, the following at least may be identified as requirements for accountability and its evaluation:

- the performance targets of the unit are clear, concrete enough and measurable;
- the performance targets apply to matters which the agency can influence with certainty, i.e. principally its outputs, their quality and, in very specific cases, their social impact;
- the agency or the institution has sufficient latitude to choose measures for attaining results;
- agreeing on the performance is a genuine negotiation in which there is room to manoeuvre in agreeing on various alternatives or choosing between them;
- in the performance negotiations, both resources and target levels can be determined simultaneously;
- the parties reach a sufficient degree of unanimity about the indicators used in the monitoring and how they are interpreted;

- the performance information is true and fair;
- the performance evaluation process leads to clearly formulated and specific feedback from the ministry;
- the performance evaluation leads to concrete measures;
- the ‘granting of discharge from performance liability’ is based on an open dialogue about the reasons for both successes and failures.

The above requirements are not always satisfied, particularly with performance targets. If not, an analytical examination of causes and effects and the agency’s contribution is needed in performance evaluation and in drawing conclusions.

*Accountability* as a concept is related to the relative freedom of operations. In order to enhance performance, significant portions of authority regarding the use of resources has been transferred to the agencies and institutions that are directly responsible for basic functions and service production. The aim in performance management is to make a clear distinction between the respective roles of the ministries and the agencies. A ministry is the strategic leader and allocator of resources in its administrative sector and is responsible for the preparation and implementation of strategic plans. Agencies participate in this implementation by producing services and maintaining basic functions. They have a clear strategic and operational responsibility for the results of their operations. The operations of both ministries and agencies affect the results and the societal impacts of public-sector activities, but at the same time the parties have their clearly defined areas of responsibility.

The foundation and basic concepts of performance management have been borrowed from corporate governance. The term ‘accountability’ adopted in administration in this context is very closely related to the same term as used in corporate accounting. When used in the public sector, accountability is usually understood to refer to the responsibility of observing legislation and regulations in financial management. Accountability can also be understood more broadly as a responsibility for using available resources as efficiently and effectively as possible and for pursuing effective performance. As in the corporate world, accountability has in the public sector expanded to cover not only good practice in financial management but comprehensive responsibility for the efficient use of resources. The main purpose of the revised budget legislation is to enhance the accountability of ministries and agencies.

## 9.2 Accountability incentives and control measures

Usually, assessment of accountability and any nonconformities with performance targets translate into a revision of the targets of performance agreements, exhortations to the agency to enhance its operations in some respects, identification of particular problems to be solved or encouragement to continue development work. It is rare to have to address more extensive issues involving policy or to have to undertake drastic measures to ensure

attainment of performance targets in the following years.

Assessment of accountability usually constitutes a mundane feedback session and negotiation, with no great drama or declaration. However, *the definition of accountability subsumes the option of employing incentives and sanctions* to ensure continued successful performance or the basis for same.

At an annual level, performance can be affected by a number of factors beyond the control of an agency, either contributing to or hindering performance. Therefore, control measures of a more severe nature are usually not considered until after several consecutive years of poor performance. In such a case, it is necessary to analyse what the reasons for nonconformities with performance targets are, i.e. to what extent the agency itself can be demonstrated to be responsible. Ultimately, the call is made by the ministry on the basis of available information. The external performance evaluation described above and the statement of the ministry on the final accounts provide important additional material for verifying accountability.

The following incentives and control measures at least are available to ministries:

| Incentives / rewards  | Control measures / sanctions   |
|---|--|
| <b>Public appreciation or acknowledgement</b>   | <b>Publication of negative feedback as well</b>  |
| Giving an agency or institution greater freedom (e.g. in increasing chargeable activities, building new relationships, setting strategic policy, implementing important development projects in the sector, and so on). | Regulation of operational appropriations or closer continuous monitoring of operations. Cautious attitude to any new ventures, e.g. in expanding operations or services. |
| In some cases, the agency's or institution's operational expense appropriation may be augmented*  | Enhancing of performance targets, and possibly increasing of targets applying to the internal distribution of resources*   |
| Potential for using performance or development appropriations allocated to the ministry in the budget**   | Direct intervention by the ministry in the management methods or procedures of the agency (e.g. by entering management targets in the performance agreement)             |
| Support for development investments (e.g. replacement of IT tools or resource allocation for development work required by a new quality system)   | Reduction of any separate orders and appropriations, or closer control of conditions for their use   |
| Performance-related rewards for agency management and other staff   | Converting agency management posts into fixed-term appointments and, if necessary, replacing the management (cf. section 26 of the State Civil Servants Act)             |

\* Attaining targets does not, of course, directly justify the increasing of appropriations, because many other factors also affect the 'appropriate' scaling. The point here is situation-specific consideration in which extra financing is agreed on for example for the purpose of acquiring new capacity as per current strategy or for the management of certain important additional tasks.

\*\* As a rule, this sort of separate appropriation is not available at the moment, but the reserving of even a relatively small development appropriation and the granting of its use can act as a performance incentive.

In reports concerning performance management, it has been repeatedly stated that from the point of view of the agencies and institutions there are no clear or explicitly stated rules about how accountability is supposed to work in performance management. Therefore, it is important for the ministry to publish any incentives and control measures it intends to employ, for instance in its statement on the final accounts. This publication helps make the procedure more predictable and thus improves the functioning of the performance management system.

### 9.3 Performance-related pay as part of management and performance management

*Performance bonuses related to the performance-related pay in central government administration are paid for attaining or exceeding performance targets which have been set beforehand, usually for a specific group. The **Office for the Government as Employer** recommends wider use of performance-related pay and proposes that a uniform set of principles for performance-related pay be adopted as feasible in government agencies and institutions and in universities.*

A working performance-related pay system requires procedures promoting trust and co-operation. Research shows that a smoothly running performance-related pay system is one which is employed in an equitable manner, which is considered to suit the purposes of the organization, has benefits that are fairly distributed, which provides feedback, which is used as a development tool and where the setting and attainment of targets is not beyond the influence of staff.

In 2004, performance bonuses were paid at 24 government agencies, the largest of these being the Finnish Defence Forces and the Customs. A total of some 17,000 persons, or 14% of all central government civil servants, received a performance bonus. The central government performance-related pay situation has remained very much the same from one year to the next, considering the number of agencies applying the system, the combined volume of bonuses and the number of persons receiving them. However, in 2004 the number of recipients increased significantly on 2003, when the number of recipients was about 12,700. The average annual performance bonus per person has been about EUR 500.

Performance-related pay has become rapidly more common in industry in recent years. Profit bonuses are included in performance bonuses. In 2003, 33% of employees and 57% of salaried employees received a performance bonus. The pay of 62% of staff in research and development functions included a performance-related component. In private services, performance-related pay was used by one company in four in 2001, and it is expected to be increasing in the near future.

The Office for the Government as Employer and the principal labour market organi-

zations revised the *principles of performance-related pay in central government administration* in a working group in 2001. The working group considered that a well-functioning performance-related pay system will improve the performance of government organizations. Performance-related pay sharpens awareness of targets and performance, supports the attainment of operational and financial targets, and is also an organizational development tool. With open discussion, it also improves management and codetermination and encourages staff to perform better.

### **Principles for the use and development of performance-related pay in central government administration:**

#### ***1. Promoting the use of performance-related pay as a reward system***

When correctly implemented, performance-related pay promotes co-operation, performance and flexibility in operations.

#### ***2. Can be adopted in all agencies and institutions***

Fundamentally, performance-related pay can be adopted in all agencies and institutions. There is no universal model for performance-related pay. It must be designed and built separately for each organization to suit its operating practice.

#### ***3. Including the entire staff***

Fundamentally, the entire staff is covered by the performance-related pay system, all units and staff groups being on an equal footing. However, we should note that pay for senior management is based on the Government Rules of Procedure and the general application regulations of the budget. Pay for senior management is discussed by the Cabinet Finance Committee.

#### ***4. Rewarding of groups***

Performance bonuses are the most efficient in encouraging groups to work better towards a common goal. They are particularly effective in groups whose members depend largely on one another and where it is difficult to separate the contributions of any individual from the whole.

#### ***5. Supplementary reward system, cap on bonuses***

Performance-related pay is a pay component that can be provided as a supplement to other components, such as job-specific and personal components. Performance bonuses are not intended to patch up shortcomings or errors in the payroll system or its implementation. The payroll policy of an organization determines the maximum bonuses for any individual and the total maximum for performance bonuses. In addition to grading, there should be a cap on bonuses so as to maintain the incentive effect of reasonable bonuses and to control unforeseen external changes to the grounds for pay determination. The minimum

amount of bonus should also be considered with a view to its incentive impact.

### ***6. Performance-related pay forms part of general management, reward models codetermined with staff***

Target-setting and performance-related pay form part of general management. Targets are set in the performance management procedure. Through the performance-related pay system, the entire staff can be guided to collaborate in contributing to improving their joint performance. This can only happen if the staff is familiar with and accepts the system and how it works. Therefore, it is important to build the performance-related pay model in co-determination with staff. The grounds for performance bonuses should be determined so that they are attainable and predictable. The grounds for bonuses must be selected so that staff can influence their attainment through their own efforts.

### ***7. It must be possible to demonstrate that performance has improved***

It is a precondition for implementing performance-related pay that the agency or institution can demonstrate that its performance has improved with regard to the targets set.

### ***8. How performance is adjudicated must be objective***

The attainment of performance targets constituting grounds for bonuses must be verifiable in a reliable way. Improved performance can only be demonstrated if the results of operations can be measured or evaluated objectively. Thus, performance targets should be expressed with indicators, which may include operational, financial, qualitative and quantitative indicators or other development targets.

### ***9. Financing must be secured***

Performance bonuses must be taken into account in the balancing of operational targets and resources. Financing for the payment of performance bonuses must be secured in advance, the default scenario being that the set performance targets are attained and exceeded. If finances deteriorate unexpectedly during the application period, the system must be reconsidered.

### ***10. Grounds for bonuses must be developed***

The grounds for bonuses must be developed and revised to match current circumstances and targets.

### ***11. The functioning of performance-related pay and the evolving of principles and best practices must be monitored continuously***

The functioning, incentive effect and problems of performance-related pay must be monitored and evaluated regularly. Evaluation provides the basis for the developing of a system that is perceived as fair. To make continued use of the incentive effect of performance-related pay, resources must be allocated to its improvement and implementation.

## 9.4 Experiences in the use of performance-related pay

The properties, effectiveness, potential problems of and obstacles to performance-related pay in central government administration was last studied in 2004 through a set of ten examples focusing on the Finnish Vehicle Administration (AKE), the National Land Survey of Finland, the National Board of Patents and Registration, the Finnish Defence Forces, the Finnish Centre for Radiation and Nuclear Safety, the Finnish Road Administration (Finnra), Finnish Customs, the Uusimaa Employment and Economic Development Centre, the Technical Research Centre of Finland (VTT) and the Finnish Communications Regulatory Authority (FICORA). (Ministry of Finance working group memorandum 13/2004.)

The need to encourage and reward individuals and groups to improve performance and to concentrate on strategically important matters was considered one of the most important reasons for the introduction of performance-related pay. It was considered good particularly in the competition for labour that the central government administration can offer rewards similar to those used in other sectors.

### *Performance-related pay and management*

Management is highly important in applying performance-related pay. Performance-related pay must be linked to performance management, in which it serves as an incentive towards good performance. The example agencies listed above have done well in this: as a result of performance-related pay, assessment and measurement of performance has improved and become more accurate.

### *Co-operation*

Usually, performance-related pay is developed together with staff, the principles and procedures being worked out in co-operation. In some cases, the staff can even participate in choosing performance targets and in deciding on indicators. The targets are always derived from the targets of the organization. It is generally considered that the commitment, initiative and co-operation among staff have increased with the introduction of performance-related pay.

### *Performance bonus model, indicators and bonuses paid*

Performance-related pay in the central government administration is a group-specific bonus system. Targets are set for groups; only rarely are performance bonuses paid on the basis of individual targets.



The criteria and indicators on which bonuses are placed vary depending on the organization, because they are usually derived from the major strategic targets of the organization. This alone shows that a bonus system, however good, is difficult to transpose to another organization with indicators and all. However, there are lessons to be learned from good bonus models in other organizations, and therefore good practices are worth publishing.

In all the models considered, there were indicators for financial targets, quality targets and often also for development targets. Financial targets involve cost development, staying on budget and budget surplus. Quality indicators include quality level measurements, customer satisfaction and throughput times. Quantity and effectiveness indicators are used at a more general level too.

### *Financing*

The first condition of paying bonuses is that funds are available for that purpose. In some of the example agencies, performance bonuses are entered in the operational budget as a conditional appropriation, while others finance bonuses out of savings accrued with cost cuts, and yet others cover bonuses using external income. Some use combinations of these. The overriding aim is for agencies and institutions to have some sort of financing buffer that would enable payment of bonuses for good performance even in economically bad times. Organizations that engage in chargeable activities have never found financing to be the greatest problem in performance-related pay.

### *Effect of performance-related pay on performance*

The indicators of the bonus model are often the same as those used to describe strategic targets. The selection of indicators can do much to influence how staff direct their efforts. If the organization is using the Balanced Scorecard model (BSC), its tool kit includes tools for the planning and application of performance-related pay. The most important points in favour of using performance-related pay are staff encouragement and incentives. The aim of performance-related pay is usually to make staff more aware of their performance, i.e. to motivate individuals and groups to do better work and to focus particularly on the matters that are considered important in the organization for performance. Used in this way, performance-related pay has proved to be an excellent management tool within the framework of performance management.

Experiences in the example organizations show that performance-related pay is well suited to a variety of environments when it is linked to the operating strategy of the organization. What is considered a benefit is that *performance bonuses are not fixed costs; they are always conditional on performance.*

## 9.5 Management development and management agreements

The reforming of the central government administration requires the *enhancing of the accountability of the management and professional management*. According to the central government spending limits decision, government agencies and institutions must perform their tasks with considerably fewer staff in the future. The increased authority of agencies and institutions highlights the responsibility and competence of their management. It is the task of the managers to ensure not only efficient operations but also organizational renewability and the wellbeing of staff at work. The wellbeing of management itself is also important for their own sake and for that of the performance of the organization as a whole. The strategy for management development in the central government administration notes that management is a profession that can be developed and in which one can improve (Ministry of Finance working group memoranda 1/2003).

In the strategy drawn up by the working group, management development forms an entity governed by a shared value base and the criteria of good management. The working group presented the following strategic outlines:

1. Senior management appointments will be fixed-term appointments with a duration of no more than eight years. This will not compromise employment security; the posts (employment relationships) will continue to be permanent.
2. Personal management agreements will be drawn up for all senior management officials in the central government administration, following these principles:
  - agreements will be made for a fixed term of four years;
  - agreements will be revised every year in connection with the performance negotiations and evaluated six months before expiry.
3. The management of the central government administration will be developed on the basis of a common model. The model will include competence targets and development principles, organized by target group.
4. Performance and leadership capacity of the management will be estimated on the basis of a uniform framework.
5. The developing, use and mobility of shared management resources will be intensified. The most senior posts, to be determined separately, will be converted into rotating government posts.
6. The development of the management of the central government administration will be intensified through shared development services.

The main portion of the *management development strategy* comprises the reforming of the selection procedure for the most senior government officials and the increasing of management mobility. The aim is to increase the importance of professional managerial competence in making appointments. Management duties in the central government ad-

ministration are often permanent and long-lasting. There is little mobility in management between administrative sectors or agencies. Transfers to another agency or another administrative sector require a shift towards more focus on general managerial competence alongside special expertise in the process of appointing managers and of developing management. Reform of the selection procedure will involve management assessment as an essential component. The practical tool for this will be the performance agreement, where evaluation criteria and personal performance targets for management are defined (Ministry of Finance working group memoranda 1/2005).

The main principles in reforming the most senior management posts in the central government administration, *which must be provided for by law*, are the following:

### 1. Reform of the selection criteria and procedure for the most senior management

The definition of leadership capacity as a selection criterion is detailed thus: a person may be appointed to a rotating senior management post in the central government administration if he has a Master's degree and managerial experience, has demonstrated leadership capacity in practice, and can be expected to have the capacity for continuous development. The senior management selection board is a new stage to be introduced to the selection procedure.

### 2. Permanent employment relationship and fixed-term management appointment

Appointees to senior management are engaged in a permanent employment relationship. They are then assigned to a specific fixed-term management appointment, e.g. Secretary of State, Director-General or Head of an Agency. As a rule, the term for these appointments is five years, although it can be extended for a further five-year period. When this term expires, the manager is generally obliged to accept a different appointment. The purpose of creating fixed-term management assignments and management agreements for these assignments is to promote personal accountability, management rotation and an exchange of duties between agencies and administrative sectors.

### 3. Common management resources of the central government administration and support unit

According to the proposal, the most senior management posts would be converted into rotating posts available to the entire central government administration. The purpose here is not to create an exclusive elite club of senior management but to ensure that persons holding these posts have the required managerial competence regardless of which organization they have acquired it in. The rotating posts shared by the entire central government

will be filled using public selection procedures as before. After being engaged, a person will be assigned a senior management appointment, also through a public selection procedure. This will involve a selection board and interview group to help the ministries. The appointment preparations would be the responsibility of the relevant ministry, and the engagements and appointments would be decided upon by the Government in plenary session, as is the case now.

As part of the development project for senior civil servants, the Ministry of Finance launched a performance-related pay experiment for senior civil servants in the central government administration in 2005. The aim is to create a set of evaluation criteria and procedures for the senior civil servants' performance-related pay system. This involves the introduction of personal management agreements for senior civil servants to enhance accountability in senior management. The performance-related pay experiment in 2005 involves the Director General of the National Land Survey of Finland, the Director-General of the Finnish Road Administration and the Director General of the Finnish Consumer Agency. They agree with the Secretary of State of the relevant ministry on their personal targets, which are derived from the operational targets of their respective organizations. A management agreement is strategic, focusing on the most important performance targets, and it covers a period of several years. The attainment of targets agreed in a management agreement is assessed annually according to predetermined criteria. The eventual performance bonus will be no more than 8% of the regular annual salary.

## 10 EVALUATION AND IMPACT ASSESSMENT

*The activity report on operations included in the final accounts of the accounting agency shall comprise the following: 8) the most important information regarding assessment of the impact and effectiveness of activity if a more extensive assessment of the impacts and performance of the activity within the sphere of the accounting agency was made during the budget year. (Central Government Budget Decree section 65 subsection 1 paragraph 8.)*

### 10.1 Why is evaluation needed?

The concept of evaluation is defined broadly in the budget legislation provisions, because it can focus on operational effectiveness, efficiency, quality or staff. Evaluation can be performed ex ante, concurrently or ex post facto. It can be performed in relation to a set target or standard, as a horizontal comparison (benchmarking) or a diachronic comparison (time series or trend study). In terms of the time period, an evaluation can involve trends and changes over a very long time; an evaluation can also involve operational correctness and success.

It is difficult to give a universally accepted definition of evaluation. There are many reasons for this. One is that evaluation is a highly practical activity, with a multitude of forms. Another is that the content and form of evaluation is highly dependent on the environment in which the evaluation is performed and used. From the perspective of the nature and content of the evaluation process, evaluation is described as a systematic attempt to define the value or significance of the target of the evaluation for purposes of decision-making. Evaluation is always a value-driven process, and the same target can be approached in different ways with very different emphases. The general acceptability and reliability of evaluation can be improved by publishing the evaluation criteria in advance, for example in invitations to tender.

The following questions can help to explore the practical significance and benefits of evaluation on a general level:

- What are the societal factors which heighten the importance of evaluation and its use in political decision-making? How do Governments try to respond to this evaluation need?
- How can evaluation improve political decision-making and understanding of the tasks of the government?
- Participation aspects are often important in evaluation for legitimacy and validity of the results. How can a balance be struck between internal evaluation, independent external evaluation and ‘participatory evaluation’?
- When examining the accountability and evaluation of the administration, one may also ask: should the eventual sanction mechanisms be linked to the evaluation?
- Can common features be found in the evaluation experiences of different countries, and are the evaluations that have been made in the different policy sectors comparable?

The increase in the need for evaluation has been debated in international administration development and research for some time. Extensive co-operation between EU Member States and the comparability of their functions are strong arguments in favour of the introduction of uniform quality management and evaluation methods. Joining the European Union caused an increase in evaluation needs, for instance regarding the use and impact of support from the regional and structural funds. Evaluation and quality management has also become an important topic recently in universities because of the Bologna declaration.

Development of the quality and evaluation of the administration was a part of the central government administration reform project launched by the Government in 2000. Topical reasons for developing quality management methods and evaluation included the need for ministries to enhance strategic management in their administrative sectors, which required the development of indicators. Monitoring of functions and projects found to be of strategic importance requires evaluation data. Evaluation was seen as a component of the reform of leadership and performance management. Cross-sectoral tasks, operational policies and programmes require a wide range of evaluation and evaluation competence.

Evaluations complement the information yielded by normal annual reporting; yearly reports do not necessarily illustrate the long-term impact of operations. Evaluations provide data for the improvement of effectiveness, efficiency and service quality. Evaluations also provide information on the impact of measures, interactive relationships and structural factors that influence the development of effectiveness and efficiency. Evaluation data can also help revise strategies and strategic plans and to assess how good earlier strategic choices have been.

The fundamental question in the evaluation of public services is how well they have performed and what kind of shortcomings and development needs can be found. Essen-

tial indicators illustrating service operations will be increasingly successfully identified for the use of political decision-makers, service providers, customers and financiers with the help of continuous evaluation and development based on broad co-operation. Evaluation produces information for these interest groups on how well public services have performed and how progress has been made in relation to resources used and the targets set for the operations.

Evaluation has to be focused on strategically important matters, thus supporting the implementation of the strategy. In addition to the fact that evaluation is a part of operational planning, of the strategy and its preparation, implementation and management, the evaluation process must generate added value as a basis for making strategic choices. The added value of the evaluation process is not just the production of evaluation data; added value is not generated until this data is analysed, combined and processed — in other words, used. Evaluation also yields valuable information for new strategic policies or policy revision.

For example, the **Ministry of Trade and Industry** has had an external evaluation performed on all the agencies and institutions of its administrative sector (30 in all) with which the ministry has concluded a performance agreement. In 2004, the Employment and Economic Development Centres were evaluated. The Energy Market Authority, established at the beginning of 2002, has not yet been evaluated. Evaluations of profit centres in the administrative sector have been performed since 1995. They have involved the assessment for instance of the position and role of the agency in the sector, the efficiency of its organizational structure and management system, the functioning of its partnerships and networks, and its capacity for reacting to changes in the environment and in operations. Evaluations have also been performed on the operations of the Ministry of Trade and Industry itself and its performance in various policy sectors.

## 10.2 Levels of assessing effectiveness

The purpose of evaluating the effectiveness and performance of operations and financing is to try to answer the following questions, among others:

- How successful or effective have the operations been? How does the quality of operations and their outputs compare in the international context? (*international and other comparison aspect*)
- Are the visions and tasks of the operations justifiable? Do they respond to the needs of customers and society and to changes in the operating environment? (*customer aspect and future aspect*)
- Has the sector used its resources as effectively and appropriately as possible? (*cost efficiency aspect*)
- Have the major external costs and impacts of the operation, such as environmental impact and regional development impact, been taken into account? (*socioeconomic aspect*)

The evaluation of the societal impacts of the operations and approaches of the ministries and agencies can be classified as follows:

1. Annual reporting on effectiveness and operational performance (outputs) based on operational and monitoring indicators or on systematic qualitative evaluation. This level of assessment involves the basic performance criteria and is an essential part of the central government administration's annual final accounts reporting and performance management.
2. Effectiveness evaluation and reporting based on operational monitoring over several years, which may depend on indicators, time series, international comparisons or qualitative estimates (outcomes). The main focus is on the attainment of officially set targets, but unintended impacts and negative impacts are also included. The principal results of the effectiveness evaluations are summarized in the central government administration's final accounts procedure.
3. Thorough evaluation of and reporting on the social needs and effects (societal impacts) based mainly on social research and a broad-based assessment of policy effectiveness. The focus is on political decision-making, and also on social needs and effects, including the intended and unintended impacts of operations, benefits and adverse impacts.

In developing the evaluation strategy of the public sector, the main focus should be on the operational effectiveness evaluations described in paragraph 2, which include various *operational policies* (e.g. housing policy, security policy, immigrant policy, etc.) and *development programmes* (e.g. Government policy programmes). This assessment level also includes *agency-specific and institution-specific evaluations*. In developing evaluation, the challenge is to create a common procedure for different administrative sectors and ministries forming part of the final accounts reporting and performance management. In developing the evaluation strategy, the role of ministries should be emphasized, they being the parties commissioning evaluations and the users of evaluation results.

For example, the improvement of traffic safety involves many different authorities simultaneously. The long-term traffic safety research and development programme **LINTU** is being carried out by the Ministry of Transport and Communications, the Finnish Vehicle Administration, the Finnish Road Administration and the Central Organization for Traffic Safety in Finland. The traffic safety vision — the 'zero vision' — is a central principle that governs the joint and several efforts of the various parties involved in improving traffic safety, and also governs research choices in the LINTU programme. In 2001, the Government issued a Resolution where it set the target of no more than 250 fatalities occurring in traffic in 2010. In 2004, the number of traffic fatalities was 375.

### *Cost benefits and cost-efficiency of traffic safety*

In decision-making on traffic safety and road traffic improvement proposals, cost-benefit calculations are employed to explore the connections between measure implementa-



tion and effectiveness. Cost-benefit calculations summarize a many-faceted effectiveness problem into a cost estimate, a simplification involving numerous reservations which decision-makers have to be aware of.

In order to gauge the efficiency of various measures with regard to the target set, the cost-efficiency of the measures is also assessed. In traffic safety, this means assessing the cost at which any particular measure can reduce the number of fatalities or serious injuries in road traffic.

The Traffic Safety Advisory Board (a liaison group for this task area) proposed the creation of ‘an operational model for influence’.

The LINTU programme has included a study intended to establish the impact of a variety of measures, based on research data, on the improvement of traffic safety according to the Government resolution mentioned above. Domestic and foreign literature was reviewed to estimate the impact of 108 measures designed to improve traffic safety, their costs and their cost-efficiency (see LINTU publications 1/2005).

The cost-efficiency assessments only concern the costs of implementing the measures and the calculated benefits of a reduction in traffic fatalities. The evaluation method works best in the assessment of the average impact of measures that have been known for a relatively long time and are already widely in use.

### 10.3 Impact assessment and evaluation of effectiveness in performance management

Under new provisions in the Central Government Budget Act, a **Government financial controller’s function** has been established at the Ministry of Finance. The purpose of the Government financial controller’s function and of the Government Controller-General is to secure and develop the quality of the central government finances and operations control system and to ensure accountability regarding central government finances and operations. The Government financial controller’s function supports and advises the Government, and also supervises the Government’s budget activities and performance, being an independent controlling body attached to the Government. The purpose of the Government financial controller’s function is to exercise its influence to ensure that true and fair information on central government finances and operational performance (particularly on the development of policy effectiveness) is entered in the Central Government Final Accounts Report submitted to Parliament. The Government financial controller’s function guides and develops the evaluation of the Central Government Final Accounts Report procedure and performance.

The target of the common *evaluation strategy* of the central government administration is to support the appropriate use of evaluation as a tool of performance management aiming at effectiveness and efficiency, and of measuring policy effectiveness. The evaluation strategy in turn helps ensure that the new Central Government Final Accounts Re-

port contains *true and fair information on the development of policy effectiveness* as per section 17 of the Central Government Budget Act (cf. Evaluation seminar at the House of the Estates, April 14, 2004).

The purpose of the evaluation strategy is make evaluation systematic and to promote the cost-efficient use of evaluation to support planning, decision-making and reporting. The viewpoint of the strategy is thus that of supporting the party commissioning and using the evaluations to help them use evaluation successfully as a tool in aiming towards more effective and financially and operationally more efficient social development policy and measures on public funding.

The general purpose of the evaluation strategy is to support the enhancing of performance management and accountability and, to that end, to make evaluation into a component of decision-making in social development policy, fiscal policy and the development of public-sector operations and finances, and also in the realization of accountability as far as policy effectiveness is concerned. A concrete target for the evaluation strategy is to make evaluation systematic and in particular to create a set of shared practices to promote in a sensible way the use of performed evaluations in boosting the effectiveness, efficiency and productivity of public-sector operations and in verifying achieved progress.

The purpose of performance management is to make public-sector operations and public expenditure as effective and financially efficient as possible. The fundamental principle in performance management is to bring targets and results and the use of limited economical and human resources into an optimal balance. The aim is thus to focus on doing the right things, i.e. the things that yield the most results, as economically as possible.

Performance management has been developed in the reform of central government performance management and accountability so as to enable better strategic choices and policies to be selected in the interests of effectiveness and efficiency. Setting targets and choosing the best measures to attain them and the right priorities requires a solid information base and a vision derived from this. Evaluation is a tool that can generate information on the impacts and interactions of measures in the development of effectiveness, efficiency and service quality and on structural factors that influence effectiveness and efficiency.

The Government and the administration under it are also accountable for the performance of their operations and of public expenditure. In particular, the Government and its ministries have a responsibility for broad policy effectiveness. Section 46 of the Constitution stipulates that the Government must submit to Parliament an annual report on central government finances. As of the 2004 budget year, this was reformulated into the Central Government Final Accounts Report, and new provisions (sections 17, 17a and 18) were incorporated into the Central Government Budget Act (423/1988) by amendment 1216/2003. This procedure came about as a result of initiatives and requests from Parliament to receive more comprehensive and more high-quality information on policy effectiveness and its development. Indeed, reporting on policy effectiveness and its development for the administrative sector of each ministry and horizontally on major Government issues has now been specified as the principal content of the Central Government

Final Accounts Report. Thus, the Report covers for instance the performance of the Government's policy programmes and the basic services programme.

*Policy effectiveness describes the degree of attainment of the policy targets and how this relates to the costs incurred.* The development of policy effectiveness can be examined with different indicators. Policy effectiveness, its development and its structural features can be studied the most thoroughly through evaluation of policy sectors and programmes. Thus, information obtained with evaluations is needed for the preparation of the Final Accounts Report. The Report also contains the most important information on and conclusions of evaluations of policy sectors, programmes and agencies and institutions that have been performed during the year.

Evaluation also has significance in the risk management of social development policy and the performance management system and in the maintaining of a smoothly running performance management. There is always a danger in performance management of the process being governed by the easy setting and attainment of targets. Setting targets and monitoring their attainment always involve choices. Evaluation helps ensure whether these choices have been justified, thus creating valuable data for the development of the control and reporting system. *Operations effective for the future and successful social development policy always require the making of choices with vision and the taking of risks.* Evaluation helps assess these risks and gain data for risk management.

In their annual reports included in the final accounts, agencies and institutions report on results achieved, based on relatively clear indicators which describe the attainment of performance targets, with explanatory and complementary qualitative descriptions of performance to support them. Agencies and institutions are also required to report on the effectiveness of public expenditure, being state aid authorities or bodies granting or channelling government support or other public funding. Reporting on the effectiveness of expenditure often requires evaluation.

EU legislation on government support and the national legislation on the general conditions of corporate support implementing EU legislation, and also the Act on Discretionary Government Transfers (688/2001), require regular evaluation of the impact of the support programmes, to be carried out in specific years. The Act states that "State aid authorities must in a suitable manner monitor the effectiveness and appropriateness of the use of discretionary Government transfers granted by them and the effect of transfers on competition and the status of different population groups and their environmental and other impact."

The **Government** issued *drafting instructions for Government bills* on June 16, 2004 (Ministry of Justice 2004:4). A Government bill is a document containing the results and conclusions of the preparatory work, used as the foundation for legislative proposals and decisions in Parliament. In the preparation of Government bills, the Government requires the consideration of alternatives. Does the attainment of the desired societal targets and impacts necessarily require legislation, or would it be possible to take care of the matter in some other way? The instructions pay special attention not only to the clarifying of al-

ternatives but also to the *evaluation of the social impacts of bills*. A Government bill must clearly state not only the major impacts of the proposed legislation but also any benefits and adverse effects of control and regulatory measures that might constitute an alternative to the legislation, and of their costs.

The standard headings of a Government bill include section 4, *Impact of the bill*, which is divided into sub-sections 4.1 Financial impact, 4.2 Impact on operations of the authorities, 4.3 Environmental impact, and 4.4 Societal impact. The impact assessment focuses on the major impacts of the bill by evaluating the actual consequences of the application of the proposed provisions (ex ante evaluation). The bill must detail all major impacts of the proposed legislation that have broad societal implications or affect a particular area of society in a major way. For example, financial impact involves evaluating public economy impact, impact on households, impact on companies and impact on business, and also significant national economy impacts such as employment, competitiveness, production and consumption, investments and regional development. Financial impacts should be estimated in euros or with various indicators, and both short-term and long-term impacts should be detailed.

The **European Commission** has committed itself to improving legislation and confirmed its Impact Assessment Guidelines on June 15, 2005. The revised guidelines contain clarifying instructions on legislation impact assessment, with particular reference to financial and competitiveness impact assessment. The guidelines apply for instance to *assessment of costs incurred to citizens, businesses and public corporations due to EU measures*. According to the guidelines, better legislation includes the Commission addressing options other than traditional legislation, whether handling the matter in question at the EU level is necessary or feasible at all, and whatever alternatives there might be to legislation.

[http://europa.eu.int/comm/secretariat\\_general/impact/whatsnew.htm](http://europa.eu.int/comm/secretariat_general/impact/whatsnew.htm)

## 10.4 Internal and external evaluation

Self-assessment (internal evaluation) is a systematic evaluation and development process performed by an organization on itself, based on broad participation by organization members, collation of the required evaluation data, specifying of development needs and implementation of development measures. *The purpose of self-assessment is usually to highlight the strengths of the organization and areas needing improvement, i.e. to gain a clear picture of what is important for the organization and to begin development projects and carry them out.*

Self-assessment in quality management is understood as a systematic development process which begins with the identification of strengths and development targets, the specifying and application of measures required, returning finally to the evaluation of new results and the identification of new development targets. Adaptations of quality-award

evaluation processes are the most frequently used in self-assessment. Self-assessment is distinguished from ‘second-party’ and ‘third-party’ evaluations, referring to evaluation by customers and evaluation by an outside expert body, respectively. Generally, there are also differences in emphasis between internal and external evaluations.

The purpose and aim of self-assessment are continuous development and learning in the organization. The basis for evaluation and its focus can vary flexibly. External evaluation, by comparison, is always to some extent of a controlling nature, aiming for instance to verify adherence to agreements and commitments made. Often, evaluation weighs costs against benefits or inputs against outputs with no particular consideration of the operational processes. External evaluation employs as far as possible objective and shared evaluation grounds, rendering it by nature a measurement. Whereas the important thing in self-assessment is the evaluation process itself and shared interpretation of its findings, the purpose of external evaluation is usually to measure results against targets or against the achievements and procedures of other bodies. Regardless of any differences in approach, internal and external evaluation are mutually supportive.

However, the relationship between self-assessment and external evaluation is not simple. All evaluation aims to improve learning and development, the difference being in the level on which it is performed. The quality award evaluation system frequently used in self-assessment is in a way a combination of self-assessment and external evaluation. General criteria are first applied in internal evaluations performed by the organization itself. If external evaluation is required, the agency can participate in a quality award competition in which external trained evaluators compare the performance of the organization against a specific set of quality criteria, e.g.

Quality competition for public online services 2004, [http://www.laatuaverkkoon.fi/laatuaverkkoon/laatukriteerit/linkit/quality\\_criteria\\_221104.pdf](http://www.laatuaverkkoon.fi/laatuaverkkoon/laatukriteerit/linkit/quality_criteria_221104.pdf).

## 10.5 Using evaluation data in performance management

The official reporting in performance management is supplemented by various reports on and evaluations of the operational branch in question, investigators’ reports, working group memoranda and management meetings. These clarify the image of the operations of administrative sectors and agencies and of the development of operating potential. It has frequently been noted in connection with developing performance management that there must be more systematic evaluation to support the annual performance monitoring.

Data on the operational performance of ministries and agencies can be gained from evaluations performed and reports prepared for other purposes. For example, evaluations of operational systems or subsidy systems yield data on shortcomings or strengths in operational policy. The reports on inspections by the State Audit Office also often address nonconformities or shortcomings in the operations of administrative sectors or agencies.

The social impacts of administrative sectors can be addressed in legislation impact assessment, evaluations of a particular administrative sector (e.g. health care) or *international comparisons* (e.g. literacy studies, learning studies, competitiveness comparisons, etc.) performed by many research institutions and international organizations.

Annual performance reporting and monitoring do not answer all questions concerning the performance and operating potential of public organizations. The strategic position, operating environment and expectations of ministries, agencies and institutions change over time. For example, European Union legislation and directives alter the operations and procedures of administrative sectors and agencies (as in the case of EU enlargement, the new chemical legislation, alcohol legislation, regional subsidies and agricultural subsidies). In order for agencies and institutions to perform well, the Government and ministries must have a vision of trends and practices in the operational branches that correspond to actual social needs. Evaluations complementing annual performance data are needed from time to time to focus on social impacts.

In the qualitative evaluations for the preparation of the annual reports and the report on final accounts, rather broad thematic entities must often be considered, with numerous indicators and social impacts being considered simultaneously. The causes and effects of impacts are also considered. Strategic revision in an administrative sector requires a thorough analysis of present practices and of results over a longer period of time as well as an investigation of the social impacts of operations.

An *external overall evaluation* of social impacts is usually launched when:

- some time has elapsed since the previous overall evaluation of operations or of the operational branch (several years, in practice);
- the operational branch is facing significant new challenges (for example, the needs of the clientele have changed, the operating environment has changed, there are new procedures, legislation has changed);
- serious problems, disruptions or shortcomings have been found in operations (for example, a crisis in service production, long throughput times or queues, customer dissatisfaction).

## 10.6 Good practice: Impact assessment at the Technical Research Centre of Finland (VTT)

**The Technical Research Centre of Finland (VTT)** is an independent multi-sector expert organization that employed 2,660 persons in 2004. VTT produces research services for companies and for the public sector. VTT turnover was EUR 218 million in 2004, of which external revenue accounted for EUR 150 million (70% of turnover) and central government budget funding accounted for EUR 68 million (30% of turnover).

**VTT Technology Studies** is a cross-disciplinary research group employing research methods from economics and sociology, consisting of 20 experts. The group produces re-

search and expert services on technological change and innovation, factors influencing them and their economic, social and ecological impacts. [http://trendchart.cordis.lu/tc\\_country\\_list.cfm?ID=4](http://trendchart.cordis.lu/tc_country_list.cfm?ID=4)

The research findings help customers, innovation policy actors and business in their strategic choices and decision-making. The group is responding to the rapidly increasing demand for R&D effectiveness evaluation through constant improvement of methods, combining qualitative and quantitative evaluation in their projects. The SFINNO database, which contains data on some 3,500 innovations developed in Finland between 1945 and 2002, is an important source for the group.

In the 2000s, VTT has studied the societal and economic impacts of its operations in several evaluations. Studies conducted by VTT Technology Studies have focused on the impacts of VTT operations on customer business, competitiveness, production, co-operation potential and competence. Broader societal impacts have also been studied, including regional impacts. The purpose of these effectiveness projects is to cater to the development of the evaluation of the societal, economic and scientific and technical impacts of VTT and their systematic monitoring. Another important target is to generate information on the relevance of VTT operations and how well it is focused from the customers' viewpoint, to support strategic decision-making. The projects have also involved development and testing of evaluation methodologies and tools for wider use in the evaluation of the impacts and effectiveness of public-sector research institutions, to establish to what extent VTT evaluation and monitoring practices can be applied to other organizations. <http://www.vtt.fi/inf/pdf/tiedotteet/2006/T2336.pdf>

The reports have focused particularly on the added value provided by VTT from the point of view of customers, partners and society at large. An important question is what the particular contribution of VTT has been in achieving the desired benefits and whether VTT operations have helped accelerate or broaden R&D. A customer-effectiveness study conducted in 2004 focused on the impact of VTT research projects on the operations and competitiveness of 200 customers in the private and public sectors. The role of VTT in promoting the common good was also studied. The study was designed by VTT Technology Studies and the VTT strategy team. The material was collected by an independent research body.

Almost all customers (96%) had increased their knowledge base and competence through involvement in VTT projects. 70% of customers said that their R&D had become faster and better, and 70% also said that projects resulted in new or improved products and services. Over half the customers had improved their competitiveness (61%) or national appreciation (52%). It is illustrative of the added value provided by VTT that in several matters at least one in three customers considered that the benefit in question could not have been achieved without VTT expertise.

As a promoter of the common good, VTT is seen to have a significant role as a supporter of decision-making in society, as a participant in the preparation of national strategies and legislation, as a promoter of improved safety, and as a participant in the prepara-



tion of standards and norms. 80% of the respondents considered VTT socially responsible, and 75% felt that VTT promotes the competitiveness of the business sector.

By way of improvements, customers requested from VTT better knowledge of customers' business, more capacity for anticipating developments in society and on the markets, and greater initiative in bringing forth new ideas.

The above-mentioned customer-effectiveness study is designed to be conducted biennially. VTT also conducts separate studies on topical themes relevant for operational orientation, such as studies on the social and regional impacts of VTT. Development is also pursued on the basis of international evaluations, quality reviews and self-assessments based on quality award criteria.

## 10.7 Evaluation process and using the results

The purpose of evaluation from the point of view of accountability and performance management is to produce applicable information to support decision-making. For evaluation to produce useful information, the evaluation criteria and questions must relate to the actual users of the information and to their information needs. Evaluations must answer the questions that are essential for social development policy decision-making and for the operations of ministries and agencies. The evaluation processes must be well conducted and credible, and there must be competence in how to use the results to improve operations.

When the purpose of evaluation is to identify development needs, the usability of an evaluation is largely determined when the object of the evaluation is specified. Therefore, particular attention must be paid to commissioning evaluations. *A party commissioning an evaluation must be able to specify clearly what thing or things are to be the subject of the evaluation.* The commissioning body must be able to set realistic targets and delimitations on the evaluation task and the evaluators; in other words, the evaluation must be seen as an expert-information input contributing to decision-making.

Impact assessment and effectiveness evaluation is a complicated process in which the evaluators, the commissioning body and the object(s) of evaluation can participate and which they can influence in many ways. The following is a breakdown of the stages of evaluation as presented in the handbook Public research institution impact assessment, (Soile Kuitunen & Kirsi Hyytinen 2004, VTT bulletins 2230):

- 1. Define the targets of the evaluation and set the evaluation criteria**
- 2. Choose the evaluation methods to be used**
- 3. Specify the targets of the policy, programme, organization, etc.**
- 4. Identify the impacts and impact mechanisms of the object**
- 5. Identify the operating environment and 'context factors'**
- 6. Measure the operational targets and impacts against one another**
- 7. Use the evaluation data and report the results**



### **1. Define the targets of the evaluation and set the evaluation criteria**

What determines the targets of the evaluation, among other things, is what motives direct the evaluation and for whose needs it is being performed. Both external and internal motives influence the evaluation, and these determine what kind of information is being sought and what methods are used to perform it.

### **2. Choose the evaluation methods to be used**

The choice of evaluation methods should be based on the evaluation questions and targets. There is no single method clearly better than any other for the evaluation of effects and effectiveness. The best result is often achieved by combining different methods and materials.

### **3. Specify the targets of the policy, programme, organization, etc.**

Specifying the targets of the object of the evaluation can be based on official, statutory targets and basic tasks. On the other hand, it is important to understand that policies, programmes and organizations are dependent on their environment, such as different institutions, groups and individuals and how they are defined. Individuals and groups can have different conceptions of the duties and targets of their organization.

### **4. Identify the impacts and impact mechanisms of the object**

When identifying impact mechanisms and assessing them in relation to the targets, it is important to note that the impacts of research and development in particular only become apparent over a long period of time. For broader outcome targets, it is often the case that no significant developments occur within one year. However, decision-makers need to be able to estimate impacts in a shorter time period, and annual targets are often set so that their results can be demonstrated in a concrete manner. Indeed, annual performance targets are easier to link to existing indicators. As a result, the discussion often involves what target level should be set for the indicator rather than whether the targets are set in the things that are most important for the organization and whether the right things are being evaluated in the first place.

### **5. Identify the operating environment and ‘context factors’**

Impacts are often very wide and manifold. It is not necessarily possible to investigate all the impacts in one evaluation. Nor is it always reasonable to demonstrate impacts with quantitative indicators. Impacts can be estimated qualitatively too — and often it is necessary and justified to do so — for example by interviewing representatives of major interest groups.

### **6. Measure the operational targets and impacts against one another**

Furthermore, it is to be noted that organizations can promote effectiveness only within the context of their own operations. Organizations are part of a wider environment in which

several different environmental factors and decisions made by other organizations can help or hinder operational effectiveness.

### **7. Use the evaluation data and report the results**

Using the evaluation data and reporting and publishing the results is of key importance for performance management and accountability. We may summarize the use of evaluation data in performance management thus:

- Evaluation is a tool for operational development and control. Irrespective of where the initiative for evaluation comes from (legislation, performance management, unit managers), the ultimate target of the evaluation is organizational learning and consequently operational improvement. At its best, evaluation is an interactive learning process where internal and external evaluation complement and support each other.
- The annual report of a government agency must contain the most important information on evaluations of operational impacts and effectiveness if a broader impact assessment and effectiveness evaluation has been performed on the agency in the budget year. Evaluation plans and programmes must be included in the operational and financial plan.
- Presenting true and fair information is an essential requirement in the reporting of evaluation results. For example, the report must contain not only favourable results but also true and fair information on shortcomings and nonconformities in operations and any development needs.
- The evaluation must be considered from the viewpoint of the commissioning body, the evaluator(s) and the object(s) of the evaluation. It must be clear at the commissioning stage how the results of the evaluation can be used, and responsibilities must be clearly divided between the actors involved. The evaluator is responsible for producing evaluation data as accurate as possible, the commissioning body is responsible for defining the targets of the evaluation and delimiting the things evaluated, as well as the use of evaluation data in decision-making and operational improvement.
- The qualifications of the evaluator are of considerable importance in an external evaluation. The evaluator must be qualified to undertake the evaluation and must apply the agreed criteria and methods systematically. The evaluator should be acquainted with the subject of the sector as appropriate and also with the area to be evaluated. However, the evaluator does not advise, approve or decide.
- Special attention must be paid to the commissioning of the evaluation and the procedures and expertise involved. In commissioning external evaluations, the one level above the object principle should be observed. For example, commissioning evaluations of agencies and institutions (specifying evaluation criteria, preparing the invitation to tender and conducting the tender process) should be the responsibility of the relevant ministry (the performance management body). Representatives of the object of evaluation participate in the preparatory work at the ministry.
- When performing evaluations and using the data generated by them, some thought

must be given to how this data can support future measures and interventions and their orientation.

Ultimately, the question is *how evaluations can help in anticipating future developments and in the strategic orientation of measures.*

## Appendix. Key performance concepts

| Concept  | Explanation   | Synonyms          |
|--|---|-------------------|
| Accountability                                     | Accountability means responsibility for following laws and regulations in the management of finances and responsibility for using the given resources as effectively and successfully as possible, and for reporting on their use and performance. Also, more specifically, accountability refers to the responsibility of actors (particularly management) for attaining results with the available resources.   |                   |
| Accounting agency                                  | Term used in budgetary legislation to refer to a ministry or any other central government entity (agency) which is designated by law or by a decision of the Ministry of Finance to be responsible for the management of cash flows, payment transactions and accounting. Financial statements are drawn up for each accounting agency.   |                   |
| Administrative sector<br>cf. operational<br>branch | An individual ministry together with the agencies and institutions subordinate to it forms an administrative sector. For example, the administrative sector of the Ministry of the Interior.  |                   |
| Annual report                                      | <p>A report submitted by an agency to its supervising ministry annually. It relates how well the performance targets set in the performance agreement have been attained, describes the agency's operational performance in general, its development and its effectiveness.</p> <p>Also a voluntary, free-form report intended to inform interest groups on performance and on changes and trends in the operating environment, published every year. The annual report helps create and maintain the corporate image of an organization.</p> |                   |
| Basic performance<br>criteria cf.<br>performance   | The basic performance criteria are divided into policy effectiveness (outcomes) and operational performance (outputs). Factors in operational performance include operational efficiency, outputs and quality management, and management of human resources.  | Performance prism |
| Budget accounting                                  | Part of the central government accounts, which follows the structure of the central government budget. Budget accounting is single-entry bookkeeping, where the ministries and agencies apply the breakdown of budgetary accounts to the level of detail confirmed by the ministries and published by the State Treasury.   |                   |
| Budget expenditure                                 | Entry in a budget account due to spending of an appropriation in the budget.  |                   |
| Budget revenue                                     | Entry in a budget account due to revenue generated in the budget.   |                   |

| Concept                                      | Explanation  | Synonyms         |
|--|--|------------------|
| Budgetary authority of Parliament            | Under section 3 of Finland's Constitution, the legislative powers are exercised by Parliament, which shall also decide on State finances. The fiscal authority of Parliament also extends to deciding on the annual central government budget. The Public Finance Committee carefully reviews the budget proposal and any motions that Members of Parliament may have submitted for the budget. Parliament also supervises the central government finances and observance of the budget. The independent State Audit Office linked to Parliament monitors the legality and appropriateness of the central government finances and observance of the budget. The authority to decide on central government finances is one of the most important authorities of Parliament. |                  |
| Business idea                                | The business idea is the reason why the organization exists and what the basic purpose of its existence is.  |                  |
| Central government accounts                  | The central government accounts consist of budget accounting and commercial accounting.  | Valki accounting |
| Central government budget drafts             | A stage of planning of the central government budget where each agency and institution presents a draft of its revenue and expenditure to its controlling ministry. On the basis of this, the ministry submits its budget draft to the Ministry of Finance. A budget draft contains proposed revenue estimates and appropriations for the next budget year.  | Budget estimate  |
| Central government budget proposal           | Formal proposal for the central government budget for the next budget year, submitted by the Government to Parliament. The central government budget is an estimate of the revenue and expenditure of the central government administration for a particular budget year. The Government submits the budget proposal to Parliament for approval. The budget balances operations against available resources.   | Budget proposal  |
| Central Government Final Accounts Report     | A report by the Government on the state, development, economy and efficiency of the central government finances in the previous year, analysed by sector and operational branch. The Report contains a report on the attainment of outcome targets and other major performance targets. The Government submits the Report to Parliament.   |                  |
| Class justifications and item justifications | Class justifications and item justifications in the central government budget include preliminary performance targets set by the relevant ministry for a policy sector falling within its purview (class justification) or for a specific unit (item justification).   |                  |
| Class of a main title (of revenue)           | A sub-division of a main title. Consists of (revenue) items.   |                  |

| Concept  | Explanation  | Synonyms |
|--|--|----------|
| Class of the main title (of expenditure)       | Sub-division of a main title (of expenditure). Consists of items (of expenditure). A class usually concerns a policy sector falling within the operational branch of a ministry, for which performance targets can be set.   |          |
| Co-financed operations                         | Co-financed operations refers to all voluntary activities of an agency that are financed from both agency appropriations and outside funds. Chargeable activities are never co-financed.   |          |
| Commercial accounting                          | Part of central government accounting, very similar in structure to the accounting that is employed in private companies as per the Accounting Act. Commercial accounting is double-entry bookkeeping employed by ministries, agencies and funds. Its application is governed by the State Treasury, for instance through accounting regulations, on the basis of templates determined by the Ministry of Finance for statement of revenue and expenditures, balance sheets and statements on the budget outturn.  |          |
| Cost   | Economic sacrifice caused by the use of a production factor.   |          |
| Cost effectiveness                             | Cost effectiveness describes the relation of actual or intended effectiveness to the costs of its attainment. Costs include, in principle, all costs incurred by the measure, and often also any costs incurred by side effects of the measure.  |          |
| Cost-equivalence calculation                   | A calculation drawn up to monitor and illustrate profitability and cost-equivalence and their development. The calculation is presented in the annual report of a ministry or agency or as a separate section at its end.  |          |
| Customer and customer satisfaction             | The customer can be internal or external to the organization. External customers are an important interest group for whom the service creates added value. The customer usually chooses, receives and pays for the service or the product and uses it. A customer of a public service does not always have all these roles, however. For example, the service received by the customer can be partly or wholly paid for out of public funds. Customer satisfaction describes the customer's attitude to the operations of the organization and to the service received. Customer satisfaction is illustrated for example by how the customers regard the expertise, accessibility, smoothness of customer service, courtesy and so on of the service provider. |          |
| Decision on central government spending limits | Decision by the Government regarding the maximum levels of expenditure and the major policies regarding the allocation and use of resources and the focusing of measures.  |          |
| Description                                    | An individual performance datum can be given as a verbal description.  |          |

| Concept                  | Explanation  | Synonyms   |
|--------------------------|--|------------|
| Economy                  | Economy is the ratio of costs and outputs, measuring cost-efficiency. Operations are the more economic the lower the costs are to produce its outputs.   |            |
| Effectiveness and impact | Effectiveness describes the relationship between targets and actual impacts (in the longer run). Impacts describe the immediate or direct changes caused by a function or service for an individual customer, for instance (gaining employment, completing a degree, etc.).  |            |
| Evaluation               | Evaluation is a process of value-setting, the comparing of a thing or state of affairs to a specific criterion and making an assessment on the basis of this comparison. Evaluation generates systematic data to support decision-making, and it can be used for operational improvement. Evaluation can be performed as ex ante evaluation, ongoing evaluation or ex post facto evaluation. | Assessment |
| Expenditure              | In commercial accounting, expenditure refers to an actual spending of money due to acquisition of a production factor or other reason. In central government accounts, expenditure refers to an actual spending of money in compensation (e.g. payroll expenditure) or unilaterally (e.g. government transfers and support).   |            |
| Expenditure item         | Part of a class in a main title, allocating an appropriation for one or more purposes, e.g. the operating expenditure of one agency. Performance targets are linked to budget items.   |            |
| Expense                  | Component of expenditure allocated to a particular fiscal period or budget year.   |            |
| Function cf. process     | A function consists of a series of related tasks. Performance targets can be set for a function.   |            |
| Fund                     | Central government funds administered by the Government but not part of the central government budget, i.e. off-budget entities. Each fund is, however, subject to performance management by the relevant ministry.  |            |
| Government Programme     | The Government Programme is the operational plan accepted by the government parties, where the most important government task areas have been agreed on. Every Government formulates its own programme, and there is no standard structure for it.   |            |

| Concept                           | Explanation   | Synonyms |
|-----------------------------------|---|----------|
| Government Strategy Document      | The Government Strategy Document is an executive tool for the implementation and monitoring of the Government Programme. The strategy document includes the policy programmes and other cross-sectoral policies of the Government together with annual plans and measures for carrying out the Government Programme. The strategy document replaces the earlier 'project portfolio'. The strategy document is related to the programme management model intended to reform the implementation and monitoring of the Government Programme. The strategy document enhances the Government's capacity for promoting, controlling and monitoring the implementation of the Government Programme. The strategy document contains detailed and monitorable outcome targets and other major targets of policy programmes and other cross-sectoral policies, and concrete measures to attain those targets. |          |
| Gross budgeting cf. net budgeting | A budgeting method in which estimates of the annual revenue and appropriations for annual expenditure are entered in the budget so that expenditure is not deducted from revenue nor vice versa. As a rule, gross budgeting is employed in the central government budget.   |          |
| Human resource accounts           | A report on human resources, prepared annually. The human resource accounts may contain information on the distribution of staff by age, gender and job group, on staff numbers, basic education, employment history, working hours, absences due to sickness, labour costs, wellbeing at work and training received.   |          |
| Income                            | In commercial accounting, income is money received that does not have to be paid back. In central government accounts, income refers to money received that is compensation (e.g. sale of chargeable performances) or unilateral (e.g. taxes).  |          |
| Indicator                         | Indicators yield measurable data that demonstrate whether a desired state of affairs has been attained or not. An indicator usually generates a numerical value for which a target level can be set and for which an actual level can be obtained by measuring. For example: Processing times in the granting of residence permits, measured in days.   |          |
| Internal control                  | Operational control carried out by the organization itself, aiming to promote attainment of targets, to eliminate inefficiency and the potential for undesired events, and to expose malpractice. Internal control is a component of management.  |          |



| Concept   | Explanation  | Synonyms             |
|---|--|----------------------|
| Main title (of expenditure)                               | Expenditure in the central government budget is administratively divided into main titles (of expenditure), in turn divided into classes. One main title represents the operational branch of one ministry. Performance targets are set for main titles in the central government budget.  |                      |
| Main title (of revenue)                                   | Revenues in the budget are divided qualitatively into main titles, which in turn consist of classes.   |                      |
| Main title justifications                                 | Main title justifications in the central government budget include the outcome targets that each ministry seeks to attain using the appropriations proposed.   |                      |
| Management agreement                                      | A management agreement is concluded for the senior management of a ministry and its subordinate agencies and institutions as part of the performance management procedure. The management agreement strengthens performance management by specifying personal performance targets for the senior managers. The management agreement is an important instrument in performance evaluation. It contains the major operational development targets to which the manager personally commits himself, and also criteria for evaluating performance. |                      |
| Management of human resources cf. human resource accounts | The management of human resources refers to competence, leadership and intangible assets. It involves the number of employees and staff structure, staff costs, information assets, staff competence, renewability, networks and organizational culture.   |                      |
| Net budgeting cf. gross budgeting                         | The difference between estimated revenues and expenditure is entered into the budget as revenue estimates or required appropriations.  |                      |
| Netra   | An Internet reporting system containing financial, staff and performance information on central government administration, planning and monitoring documents of ministries and agencies and other information on central government operations and finances, all collected in a single portal.   |                      |
| Off-budget entities                                       | Central government funds which are not included in the central government budget.  |                      |
| On-budget entities  | On-budget entities form part of the central government finances. Their revenue and expenditure are included in the central government budget. These entities include the Office of the President of the Republic, Parliament, ministries and government agencies and institutions.   | On-budget activities |
| Operating environment analysis                            | Systematic analysis of trends, opportunities and threats in the environment related to the operations of an agency.  |                      |
| Operating expense item                                    | Item of expenditure allocating an appropriation to the running expenses of an agency or institution or to the acquisition of long-term production factors (e.g. payroll and other running costs).  |                      |

| Concept   | Explanation  | Synonyms                         |
|---|--|----------------------------------|
| Operational and financial plan for an administrative sector | A planning document for operational management and performance management, prepared for a four-year period at a time. The operational and financial plan is a control tool in the central government finances; it contains the policies, focuses and targets of its administrative sector and forms the basis for the preparation of the annual central government budget. The plan is based on the decision on central government spending limits.  |                                  |
| Operational and financial planning                          | Planning the operations, economy and performance of agencies and institutions for a period of several years.   |                                  |
| Operational branch cf. administrative sector                | The operational branch of a ministry consists of those policy sectors and areas of responsibility assigned to the ministry in the Government Rules of Procedure (262/2003). The operational branch of a ministry covers many international tasks and control and regulation of organizations beyond the administrative sector of the ministry (e.g. municipalities or companies). A ministry can also performance-manage agencies in another administrative sector that handle business falling within the purview of that ministry. 'Operational branch' is a broader concept than 'administrative sector'. |                                  |
| Operational efficiency                                      | The operational efficiency is an overall approach to the organizing of an agency's use of resources and functions. It consists of economy, profitability, the profitability of chargeable activities in particular, and the cost-effectiveness of activities co-financed by the agency and other financiers.   |                                  |
| Operational performance                                     | Operational performance describes the accomplishments of an agency's operations and its efficiency. It consists of things that an individual agency or institution can influence. Performance includes operational performance, outputs and quality management, and management of human resources.   |                                  |
| Other performance-managed unit                              | An organization which concludes a performance agreement with a ministry but is legally not an on-budget entity and does not belong to the administrative sector of the ministry (e.g. certain foundations and state aid organizations).  |                                  |
| Output  | An output is, in this context, an enumerable instance of a service provided to an individual customer (which may be in the form of a product delivered or a service performed). Outputs may be produced by an administrative sector, an agency, a profit centre, a division, a process or a function.  | Product, service, accomplishment |
| Performance accounting                                      | Monitoring of operational performance, which helps produce essential information required in external control, and final accounts and annual report information, economically and reliably.  |                                  |

| Concept                                    | Explanation   | Synonyms                    |
|--|---|-----------------------------|
| Performance agreement                      | A control tool which a ministry uses to agree with agencies and institutions on available resources and performance targets.  | Performance target document |
| Performance agreement target               | A performance agreement target is a target jointly agreed by a ministry and an agency in performance negotiations. It can be the same as a preliminary performance target and the same as an existing performance agreement target.   |                             |
| Performance budgeting                      | A budgeting method in which the preparation of the budget proposal is governed and motivated by performance targets.  |                             |
| Performance cf. basic performance criteria | An accomplishment that has the desired effect or benefit in the operating environment. Performance describes how well targets are attained and how well benefits and impacts have been achieved in relation to the resources used.  |                             |
| Performance management                     | Performance management is an agreement-based interactive control model. Its operational core is in the ability of the agreement parties to find the appropriate balance between the available resources and the results to be attained with them. The basic idea of performance management in operations is to balance resources and targets on the one hand and efficiency and quality on the other as well as possible, and to ensure that the desired effects are achieved cost-effectively. The Government made the decision on performance management reform in the central government administration in October 1990, and performance budgeting was first applied in the same year in the budgets for three pilot agencies. |                             |
| Performance quality                        | Performance quality describes the faultlessness and quality of produced performances and can also include information on production process quality. Information about the number of performances produced is also included.  |                             |
| Performance target                         | A measurable state of affairs or value, a change or progress towards change, which represents a challenge and which is to be attained within a certain period of the time. Performance targets describe results, not measures or actions. For example: Customer satisfaction will be improved so that 80% of customers are satisfied or very satisfied with services.   |                             |
| Performance target document                | A document in which a ministry agrees on the major operational performance targets and outcome targets for a performance-managed agency. The document is finally confirmed after the central government budget is approved; it contains performance targets more specific than those entered in the budget proposal.  | Performance agreement       |

| Concept                               | Explanation   | Synonyms                      |
|---------------------------------------|---|-------------------------------|
| Performance-managed government agency | The performance-managed government agency is the basic unit of the central government performance management system. Each ministry concludes a performance agreement concerning performance targets and resources with all the agencies that belong to its administrative sector and that are to be performance-managed. An individual government ministry, agency or institution can either constitute a performance-managed unit or consist of several separate performance-managed units. A ministry can also performance-manage agencies in another administrative sector which handle business falling within the purview of that ministry.  | Accountable government agency |
| Performance-related pay               | Performance-related pay is a reward system which is in the gift of the agency; the system defines how staff are rewarded for attaining or exceeding the agency's performance targets. Performance-related pay is a supplementary pay component which does not permanently raise the wage level. Performance bonuses are not part of an employee's pay proper; instead, they are paid separately from monthly pay, usually once a year. Performance bonuses are paid if performance targets are attained or exceeded.  |                               |
| Policy effectiveness                  | Policy effectiveness (also referred to as 'societal impacts' and 'social effectiveness') describes how social development policy targets have been attained. Policy effectiveness thus describes how well social development policy has succeeded, measuring the impacts of measures on rather broad task areas and social targets, such as sufficient social security, efficient and high-quality health care, equitable income distribution, and employment. The purpose of policy effectiveness is to respond to the needs of society and to ensure social development, economic growth, employment, and so on. Thus, policy effectiveness forms part of the performance which an individual agency or institution can influence for its own part. The accountability of the Government and ministries lies largely in policy effectiveness. |                               |
| Policy programme                      | Programme management, which was introduced in spring 2003, is based in practice on the major cross-sectoral task areas in the Government Programme, known as policy programmes. Outcome targets are defined for policy programmes. Policy programmes form part of the programme management model used in coordinating implementation of the Government Programme. The purpose of programme management is to make the administration run more efficiently, following the Government Programme and its points of emphasis. Programme management is also intended to make the monitoring and assessment of policies more systematic and to increase networking between ministries, agencies and other interest groups.   |                               |

| Concept                            | Explanation  | Synonyms              |
|------------------------------------|--|-----------------------|
| Process                            | A process is a way of working. A process consists of a series of functions which are temporally or logically connected. A process always has a beginning and an end, an internal or an external customer, and an output (e.g. a product or service) received by the customer. Measurable performance targets can be set for a process.   |                       |
| Processing time or throughput time | Processing time refers to the total length of a process or service which begins with a customer submitting an order or instigating a process and ends with the matter being resolved, i.e. with the customer receiving a decision or other service. For example, the percentage of university students who have completed a degree within five years of starting. Processing time or throughput time is an important indicator in service production and customer effectiveness. | Throughput percentage |
| Productivity                       | Productivity is a measure of the efficiency of operations, defined as the ratio of operational outputs to the expenditure used to achieve them: $\text{outputs/inputs} = \text{productivity}$ . Overall outputs divided by overall expenditure equals overall productivity. Overall outputs divided by labour input equals work productivity.  |                       |
| Profit centre                      | Area of operation in which performance is accomplished. A profit centre has its own business idea which designates the desired social impacts and services offered to various customer groups. A performance-managed agency may contain several profit centres, which are accountable for their operations to the management of the agency.  |                       |
| Profitability                      | The profitability of chargeable activities is measured as the difference between the sales revenue on performances and the costs of the use of production factors (cost-equivalence) and a ratio (cost-equivalence ratio).   |                       |
| Public goods                       | Public goods are benefits accruing indivisibly to society as a whole and its members, where one individual enjoying or consuming the benefit does not detract from the opportunity for other individuals to do likewise. Public goods include a clean natural environment, a healthy living environment and public security.   |                       |
| Quality                            | Quality describes how faultless the properties of a product or service process are in general and how well it fulfils the expectations and demands of interest groups. For example, quality describes properties of the outputs and internal processes of an agency, in particular how the products and services conform to the demands and criteria placed on them by legislation, by society and by customers.   |                       |

| Concept   | Explanation   | Synonyms |
|---|---|----------|
| Quality management  | Quality management describes the quality of operations and outputs. Quality management includes, among other things, service capacity (customer satisfaction, customer effectiveness) and the quality of processes and outputs (including the number of outputs).   |          |
| Revenue   | Income or portion of income allocated to a particular fiscal period or budget year.   |          |
| Revenue item  | Subdivision of a class, applying to an individual source of revenue.  |          |
| Risk management   | Consists of actions intended to identify and control through anticipation the risks that could threaten an organization's ability to attain its targets. The aim is to control risks and their positive and negative impacts (cf. risk assessment).   |          |
| Service capacity  | Service capacity describes how well an agency can serve society and its customers. Service capacity includes customer satisfaction, processing and throughput times and the agency's ability to respond to customer needs and to generate added value for society and its members.  |          |
| Statement of the ministry on the final accounts and annual report | Document in which a ministry presents a performance-managed agency or institution with its considered opinion on the realization of the performance agreement, performance development, performance reporting criteria and development needs, audit observations and the operational and financial state and development of the agency or institution and measures to be undertaken by the ministry and the agency as a result. |          |
| Strategy  | Conscious choice of direction, cf. strategic plan.  |          |
| Surrogate quantity  | Quantity used in cases where it is not possible to express numerically the quantity of public goods produced. Examples of surrogate quantities include the length of shipping channels maintained in kilometres in maritime administration and the number of hours on patrol or hours of surveillance in the Border Guard.  |          |
| Target hierarchy  | Performance targets in the budget should dovetail with targets in the ministry strategy documents. Performance targets are divided into outcome targets and operational performance targets.  |          |

| Concept                         | Explanation  | Synonyms |
|---------------------------------|--|----------|
| Unincorporated state enterprise | <p>An unincorporated state enterprise is an off-budget government organization that is run like a business. Unincorporated state enterprises sell goods and services in open competition on the market. Such enterprises are managed through performance management and service level control. Parliament sets the major service and other performance targets annually in the budget debate. Within these limits, the controlling ministry confirms the service and other performance targets of the enterprise and decides on financial profit and payout targets. The board of directors and managing director of an unincorporated state enterprise are responsible for the profitability of the enterprise and for the attainment of its targets. The Government confirms the final accounts of the enterprise and decides how profits will be paid out. The legislation concerning unincorporated state enterprises consists of the general State Enterprise Act (1185/2002) and enterprise-specific Acts and Decrees.</p> |          |

## USEFUL LINKS AND REPORTS:

Looking for a Deliverable Lisbon Strategy on Sustainable Growth and Jobs

– Provisional Agenda for Strategy-Focused Public Governance (2006). Ministry of Finance. Helsinki

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/08\\_other\\_publications/Lisbon-strategy.pdf](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/08_other_publications/Lisbon-strategy.pdf)

Central Government Reform, report 28 June 2002

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/08\\_other\\_publications/Englkielinen\\_loprap2002.pdf](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/08_other_publications/Englkielinen_loprap2002.pdf)

Good governance and corruption in Finland. August 2005.

<http://virtual.finland.fi/netcomm/news/showarticle.asp?intNWSAID=25891>

A Potential Governance Agenda for Finland (2000). Ministry of Finance. Helsinki.

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/04\\_research/20001231APoten/name.jsp](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/04_research/20001231APoten/name.jsp)

Making Opportunities Work – Best Practices from Finland (2004).

[http://www.vm.fi/vm/en/04\\_publications\\_and\\_documents/01\\_publications/08\\_other\\_publications/88457.pdf](http://www.vm.fi/vm/en/04_publications_and_documents/01_publications/08_other_publications/88457.pdf)

Markku Harrinvirta & Sirpa Kekkonen (2005): Government Programme As a Subject of Performance Measurement – Process and politics. Prime Minister's Office. Finland.

<http://soc.kuleuven.be/io/egpa/qual/bern/kekkonen.htm>

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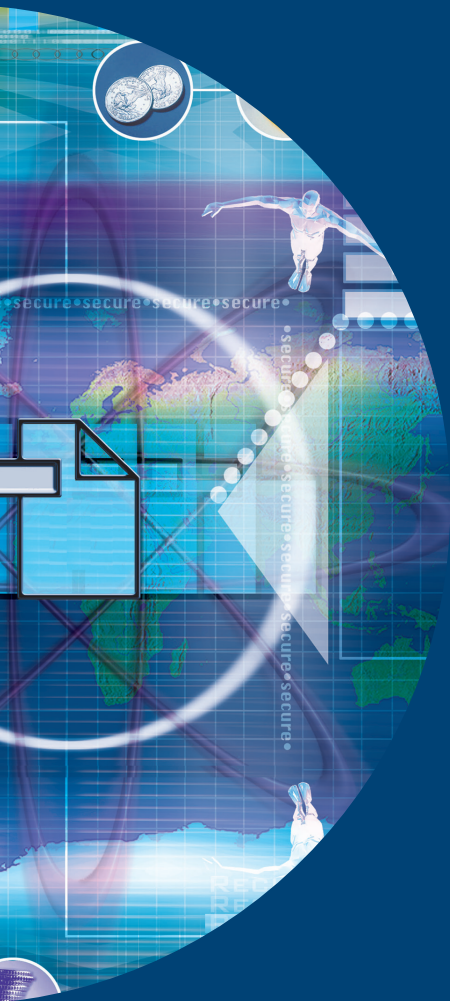
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