

*Measuring effectiveness  
and operational efficiency  
of the Finnish PES*

BP 04  
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The Participating Partners of the project »Mutual Learning-Benchmarking among Public Employment Services (PES)« will have a second meeting in Vienna, 8–9 March 2006.

The Blue Paper 04 gives an overview of the presentation Mr. Ilkka Nio, Ministry of Labour Finland, will give at this meeting.

For the team of consultants:  
Ursula Lehner

Vienna, 3 March 2006

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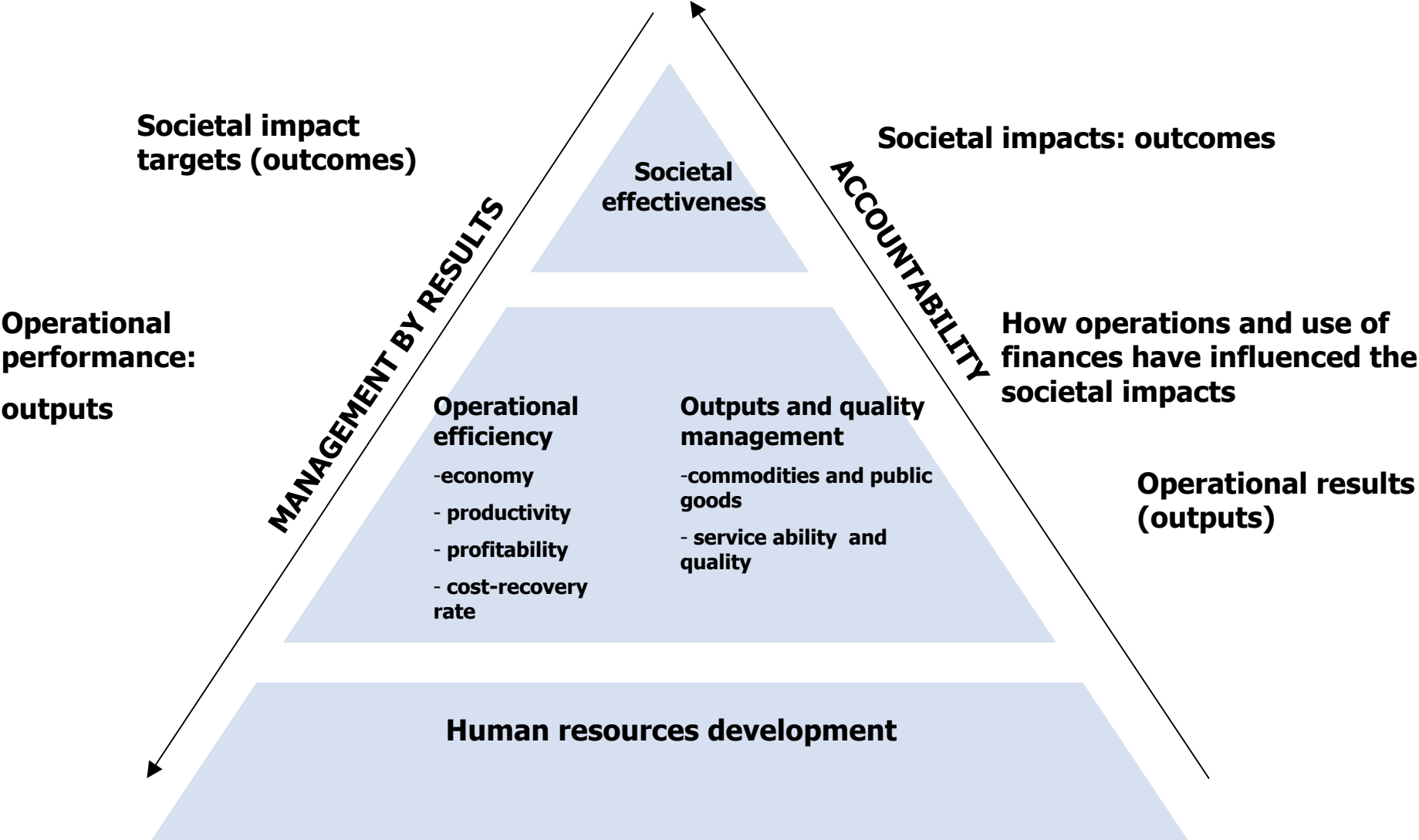
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# Contents

- **Measuring effectiveness and efficiency of PES**
  - **In Finland the performance management, started in 1990, constitutes an interactive steering system based on the principle of concluding agreements. In 2004, the central government made a performance and accountability reform in order to strengthen the performance management.**
  - **Ministries have an active role as parties in performance agreements and in setting targets. Information given to the Parliament in the Government budget proposal must be clear and consistent. In other words, there is a need to make a clear distinction and a hierarchical order between the targets for social impact (outcomes) and the functional performance (outputs).**
  - **Every administrative field is responsible for creating its own performance criteria “prism/triangle of performance” and respective monitoring systems.**
- **Key word in PES-monitoring is “indicator”**
  - **Biggest challenge in the Finnish Labour Market Policy is to avoid a situation where there is a shortage of skilled labour simultaneously with high unemployment rates, due to ageing population and high structural unemployment.**
  - **When developing better indicators for monitoring the employment strategy the jobseeker statistics provides the primary source of management by objective information system (the “flow-stock-model” of employment, measuring structural employment, recruitment problems etc.)**
  - **Presentation of the Performance Targets in the Budget and in the Operational and Financial Plan including indicators on societal impact, efficiency, productivity, economy, quality and human resources development.**
- **New challenges in developing PES**
  - **Criteria of performance should be measured on the level of the employment office.**
  - **Knowledge management calls for active use of new monitoring tools, such as benchmarking, DEA and Value Driving Score Card.**



# Performance prism: the criteria of performance and true and fair view on performance



# Hierarchy of targets and means with key **result indicators** in the Finnish PES

-100 000 new jobs during the Government  
- employment grade up to 75 % by 2011  
- regionally well-balanced development

**Employment targets in the Government platform**

Securing the supply of skilled labour  
- recruiting problems and shortage of labour

**Targets of societal effectiveness In Labour Administration**

Reducing structural unemployment  
- number of hard to place unemployed

Lengthening job career by 2-3 years  
- expectation of time spent in the labour market at the age of 50

Improving the functioning of labour market  
- filled vacancies  
- tailor-made labour market training

Early prevention of longterm unemployment  
- flow over the 6 months' duration of unemployment

Prevention of exclusion  
- youth guarantee (offer of job, education or training before third month of unemployment)

**Strategic action lines**

Reforming PES  
- Customer satisfaction

Active programmes  
- activation rate  
- rate of return to unemployment

Activation of labour market support  
- share of active spending

**Operational level**

In addition to the result indicators, about 20 context indicators, such as long-term unemployed, filling time of job vacancies, DEA-efficiency of offices, recipients of passive labour market support over 500 days, activation rate of LTU, etc.

# PES WITH KEY PERFORMANCES AND EXPENDITURE IN 2003

## LABOUR ADMINISTRATION

### LABOUR EXCHANGE AND INFORMATION (38 % of expenditure)

- maintenance of registers
- labour exchange
- training and vocational information services
- chargeable services

83.1 million €

312 000

Filled vacancies

OPEN LABOUR  
MARKETS

### INDIVIDUAL CASE MANAGEMENT (25 %)

- vocational guidance
- individual action plans
- job-clubs
- vocational rehabilitation

65.5 million €

242 000

Individual action plans

ACTIVE  
LMP

### ACTIVE MEASURES (27 %)

- labour market training
- employment measure
- ESF-measures

49.3 million €

204 000

Entrants

1.008 million €  
(year 2002)

### PASSIVE MEASURES (9 %)

- unemployment benefits
- pay security

20.9 million €

1 763 000

Made statements

UNEMPLOYMENT

2.278 million €  
(year 2002)

218.7 million €



# Flows of unemployed in Finland between 01/2004 and 12/2004

## Started unemployment spells

883600

Duration of unemployment under 3 months

Average stock at the end of month 100400 unemployed

Duration of unemployment 3 - under 6 months

56000

Duration of unemployment 6 - 12 months

47900

Duration of unemployment 12 - under 24 months

39000

Duration of unemployment 24 months and over

31800

265800

140700

63300

22500

619300

128000

75900

39800

22200

84800

439300

95300

ALMP-measure

Open labour markets

Other reason

31200

47100

49700

ALMP-measure

Open labour markets

Other reasons

24900

23000

28000

ALMP-measure

Open labour markets

Other reasons

16200

6200

17400

ALMP-measure

Open labour markets

Other reasons

6000

1300

15000

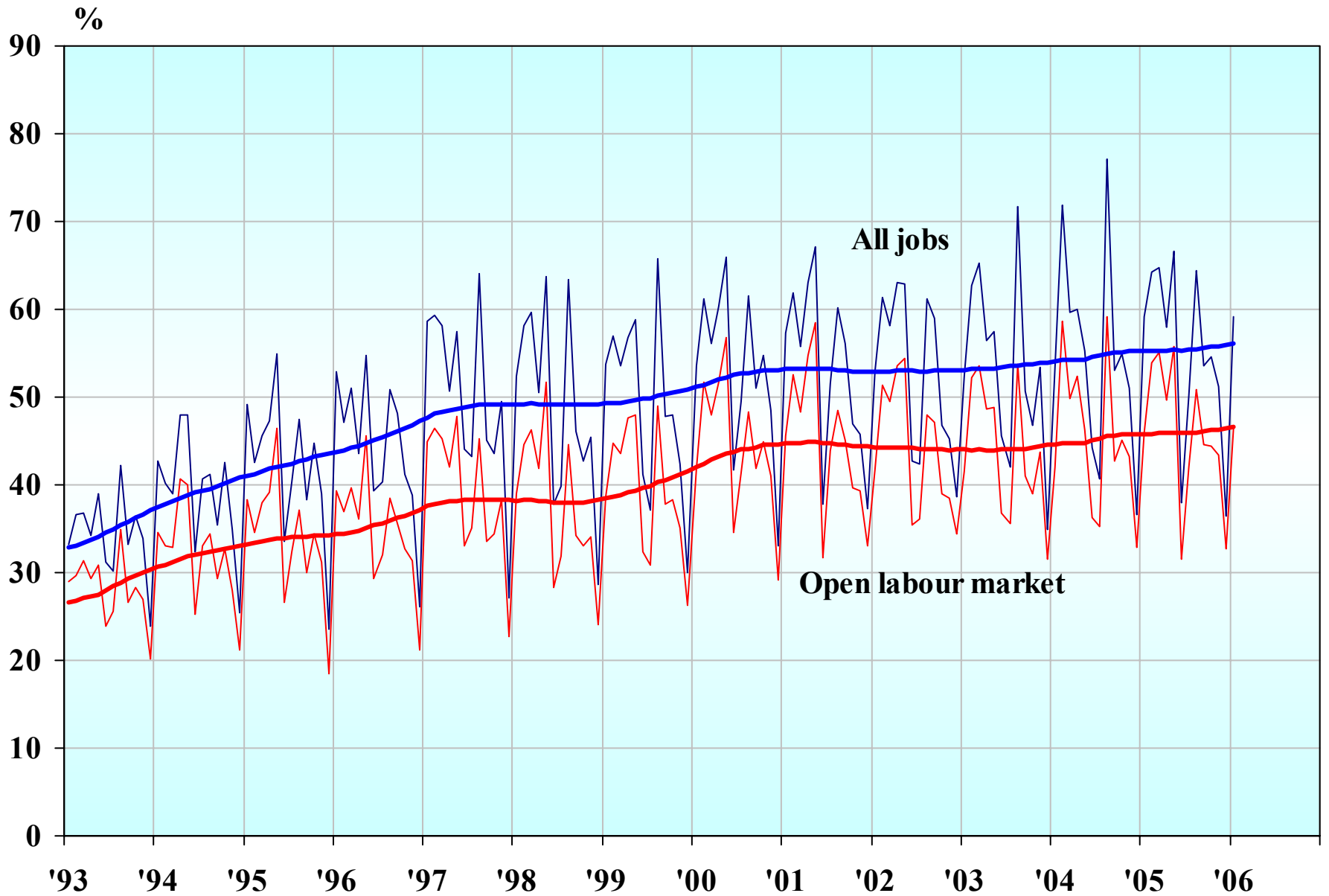
ALMP-measure

Open labour markets

Other reasons

Ended unemployment spells 885200

# Transition from unemployment to employment within six months



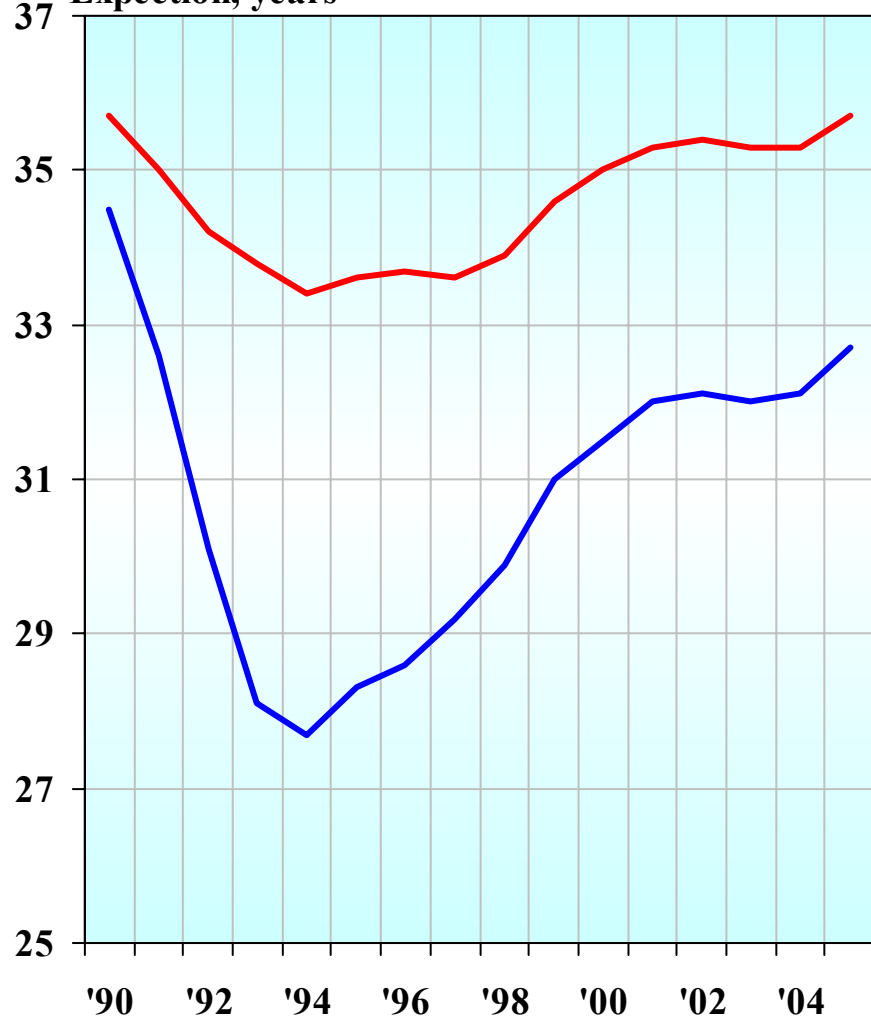
## Structural unemployment in 1997, 2003 and 2004

	2005	2004	1997	2004 - 1997 change	change %
<b>a Long-term unemployment</b>	<b>72 400</b>	<b>73 000</b>	<b>124 600</b>	<b>-52 200</b>	<b>-41,9</b>
<b>b Recurrent unemployment (12/16)</b>	<b>40 900</b>	<b>41 900</b>	<b>63 200</b>	<b>-22 300</b>	<b>-35,3</b>
<b>c Unemployed after participation in active labour policy measures</b>	<b>36 600</b>	<b>39 500</b>	<b>58 200</b>	<b>-21 600</b>	<b>-37,1</b>
<b>d Recurrent participation labour policy measures</b>	<b>11 900</b>	<b>13 200</b>	<b>22 600</b>	<b>-10 700</b>	<b>-47,3</b>
<b>Structural unemployment</b>					
<b>(a+b) narrow</b>	<b>113 300</b>	<b>114 900</b>	<b>187 800</b>	<b>-74 500</b>	<b>-39,7</b>
<b>(a+b+c+d) broad</b>	<b>161 800</b>	<b>167 600</b>	<b>268 600</b>	<b>-106 800</b>	<b>-39,8</b>

# Expectation of time spend in the labour market at age 15 and 50 in 1990 - 2005

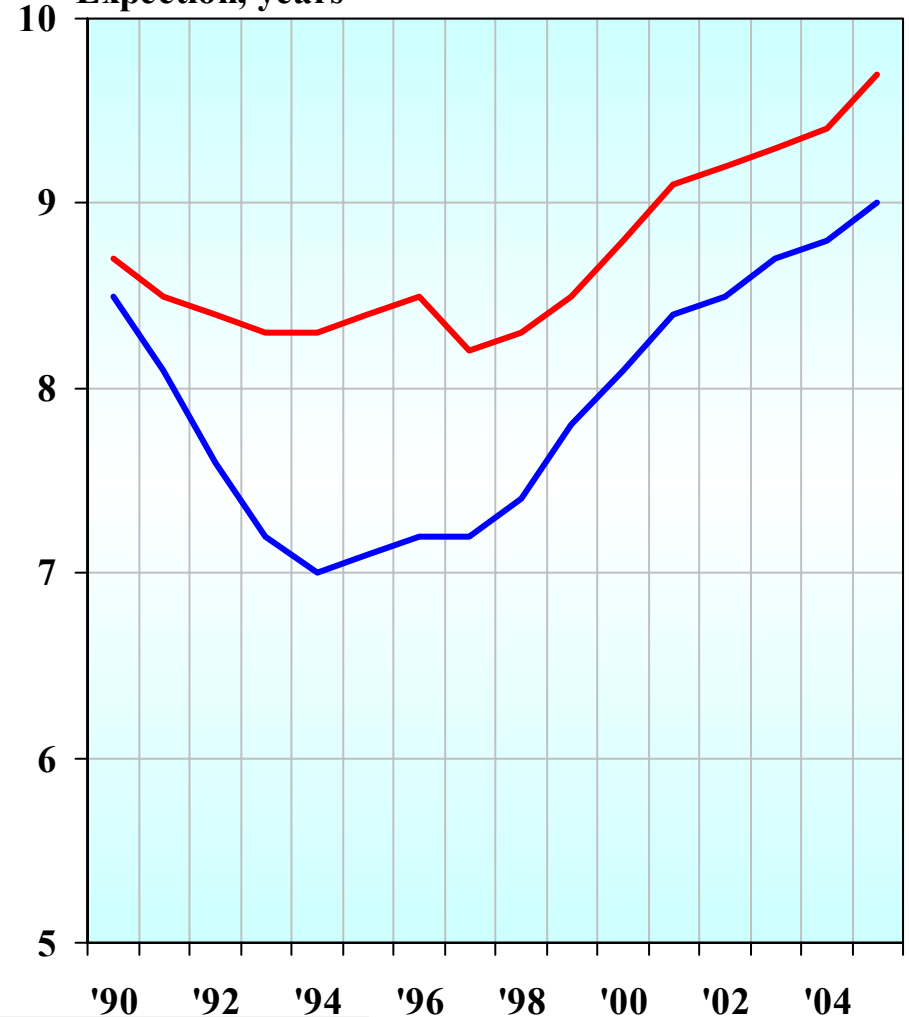
## 15-year-olds

Expectation, years



## 50-year-olds

Expectation, years



— In labour force — In employment

# The Value Driving Score Card in the Finnish labour administration

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## Strategy:

- The VDSC should comply with the strategy. The indicators are managed from the strategic targets
- The social effectiveness targets and the operational result targets are separated from each other and outlined on a hierarchical basis

## Sharpening management by results:

- The VDSC is connected to a prism of performance complying with the operational model of the labour administration. Thus the measurement has a theoretical (investment-output-effectiveness) as well as practical basis with standardized information
- The focus in the management by results is on value drivers, which in the labour administration are often targets related to labour market dynamics

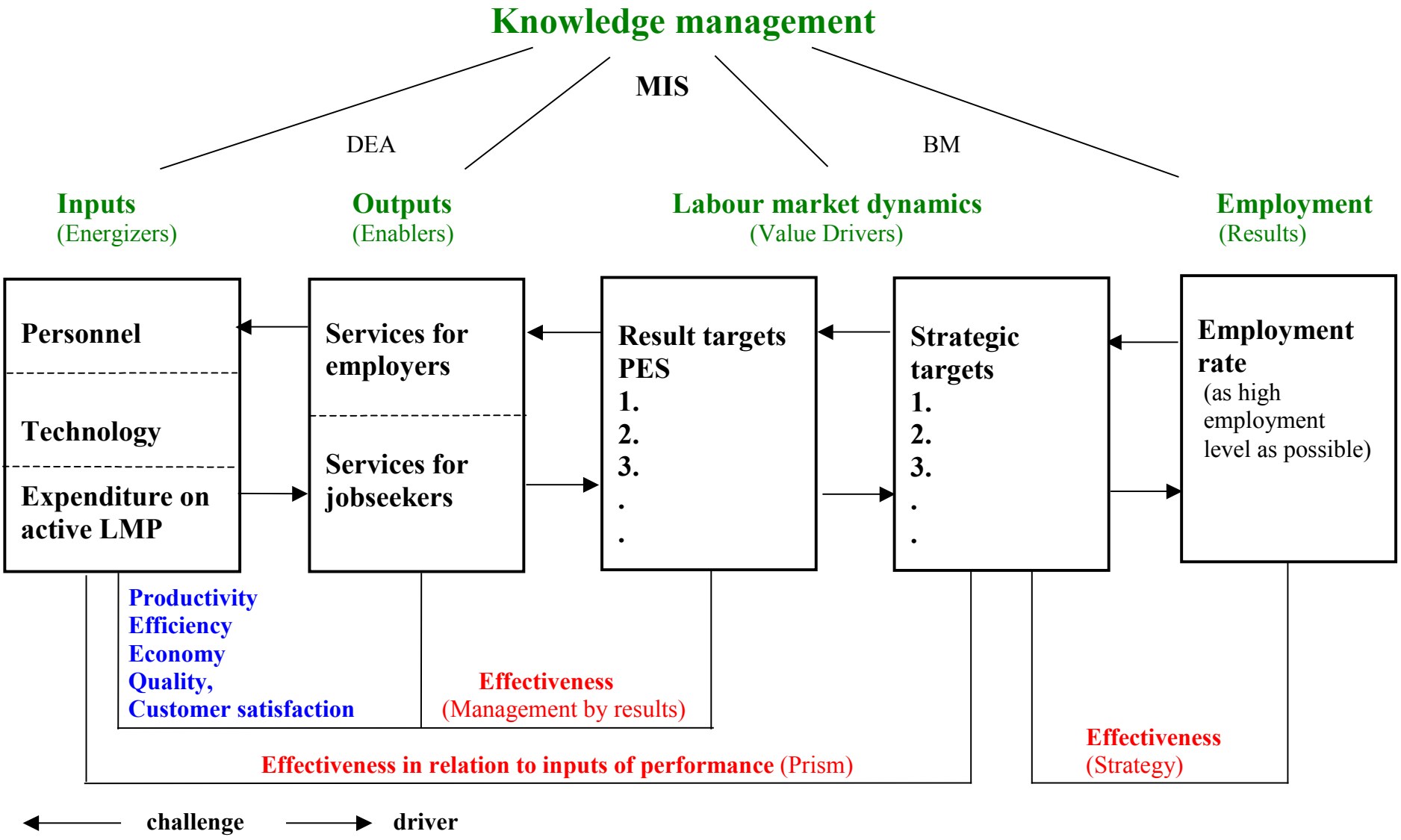
## Taking the causal background into consideration:

- When determining strategically important factors, dynamic causal relations are taken into consideration, which increases understanding and transparency in the implementation of the strategy.
- Reaching the targets depends on economic, social etc. environmental factors, in the consideration of which the significance of research and analysis is emphasized

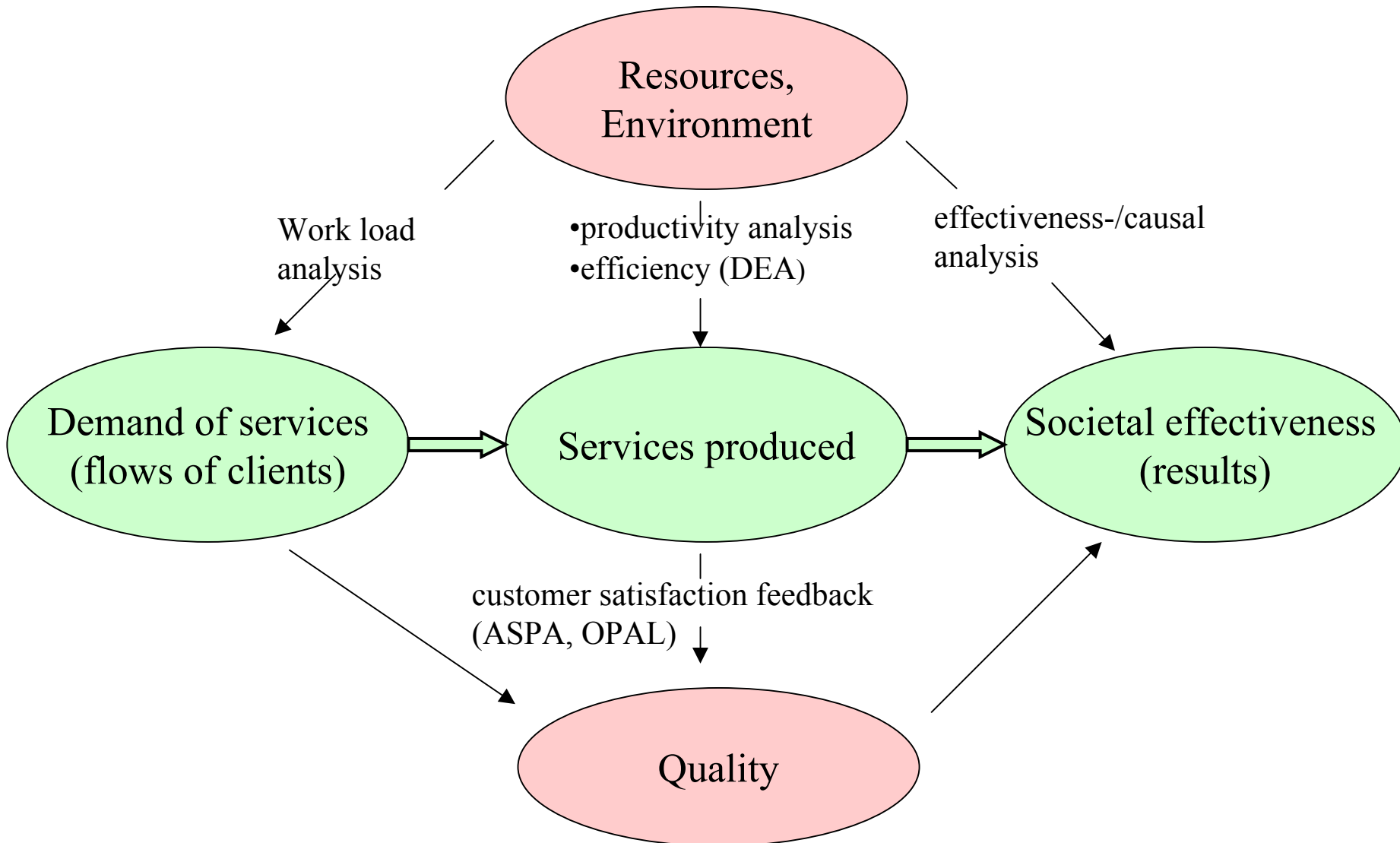
## Developing knowledge management:

- The introduction of the VDSC requires modernization of the Management Information System. The monitoring indicators should be integrated into one system at the employment office level.
- New tools, such as benchmarking and Data Envelopment Analysis are required for comparing with result units, monitoring targets and seeking best practices.
- An individual monitoring and documentation system of clients and officials is needed for steering the practical work.

# Operational model of the Finnish labour administration and the measurements of the Value Driving Score Card



# Benchmarking employment offices



# Variation of structural unemployment and the affecting factors by employment offices in 2004

	min	max	average	std. dev.
<b>Target: to reduce structural unemployment</b>				
* share of structural unemployment ( dependent variable)	19,1	55,9	42,3	5,9
Independent variables				
<b>Instruments</b>				
* activation rate, %	14,9	42,6	25,0	4,9
* individual action plans (in relation to the inflow of unemployed, %)	6,4	337,8	94,9	58,7
<b>Work load / quality</b>				
* number of the unemployed per official	23	129	68,9	16,2
<b>Environment</b>				
* unemployment rate, %	2,3	25,2	12,8	4,6
* share of 55-64-year old unemployed, %	15,8	42,4	25,7	4,3

Number of offices =147

## How the LMP-measures, the work load and the environment explain the variation of the structural unemployment ?

- **Hypothesis: The activation rate and individual action plans reduce, whereas the work load increases the structural unemployment**  
**High unemployment rate and big share of ageing unemployed increase the structural unemployment**
- **Test of hypothesis ( estimated regression coefficients)**
- **Identification of star performers and under-achievers**

# Effect of the LMP and environmental factors on the structural unemployment

Level of significance

Order of magnitude

**Target: to reduce structural unemployment**

**\* Share of structural unemployment ( *dependent variable* )**

***Independent variables:***

**Constant ( rigid part of unemployment)**

0,001

+++

**Instruments**

\* activation rate

0,001

--

\* individual action plans

not significant

0

**Work load / quality**

\* number of unemployed per official

0,05

+

**Environment**

\* unemployment rate

0,001

++

\* share of 55-64-year old unemployed

0,001

++

**N=147, R2=51 % (explained variation)**

**Only half of the variation explained ----> there exist good and poor practices in employment offices**

+++ --- **big**

++ -- **moderate**

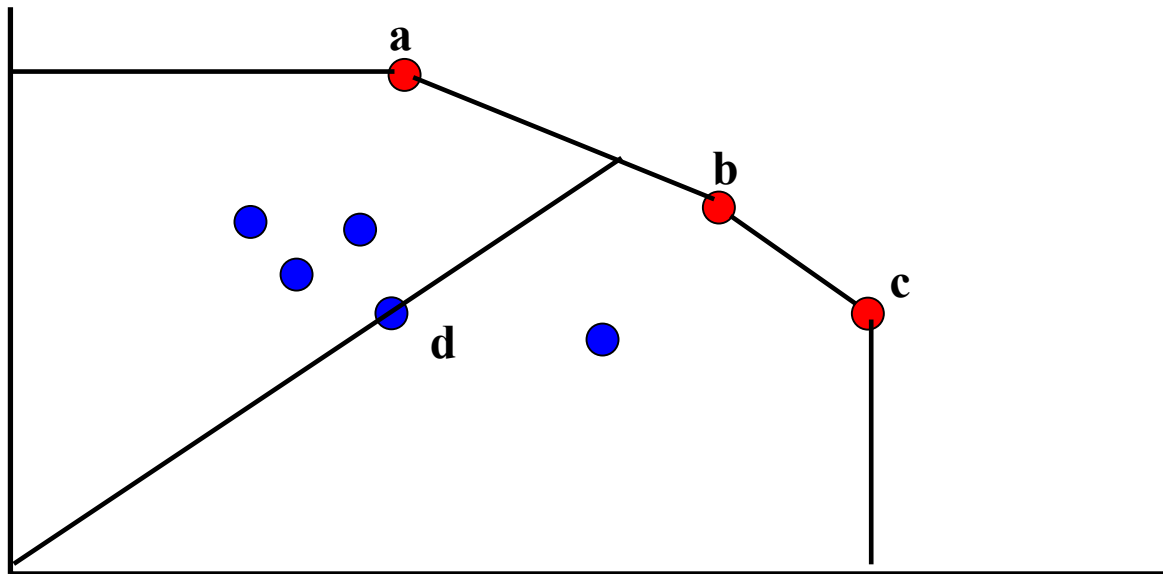
+ - **low**

## DEA-analysis ( Frontier Analyst )

- performing comparative efficiency studies
- visualising important information
- allocating resources more efficiently
- obtaining information for planning strategy
- identifying star-performers and under-achievers

Efficiency frontier = 100 % efficiency

Output 2  
input



Output 1  
input

# DEA-efficiency scores of employment offices in 2004 input: staffing outputs: four key performances

Unit	Score	Unit	Score	Unit	Score
<b>PAIMIO</b>	<b>100</b>	KAJAANI	87,68	SIIKALATVA	79,59
<b>LAITILA</b>	<b>100</b>	JÄMSÄ	87,53	ÄÄNESEUTU	79,32
<b>SALLA</b>	<b>100</b>	KYRÖNMAA	87,23	TORNIO	79,17
<b>PIELAVESI</b>	<b>100</b>	NAANTALI	87,02	SUUPOHJA	78,96
<b>KIURUVESI</b>	<b>100</b>	KOLARI	86,69	PARKANO	78,94
<b>NILSIÄ</b>	<b>100</b>	JOENSUUN SEUTU	86,39	ORIVESI	78,93
<b>YLÄ-KARJALA</b>	<b>100</b>	PÄIJÄT-HÄME	86,3	KOTKA	78,53
<b>HAUKIPUDAS</b>	<b>100</b>	KERIMÄKI	86,29	KANKAANPÄÄ	78,12
<b>KEMI</b>	<b>100</b>	KANGASALA	86,16	RAAHEN SEUTUKUNTA	78,11
<b>KUOPIO</b>	<b>100</b>	NIVALA-HAAPAJÄRVI	85,74	HÄRMÄNMAA	78,06
YLIVIESKAN SEUTUK.	99,16	LAUKAA	85,44	LOVIISA	77,81
JANAKKALA	98,83	PALTAMO	85,31	HAMINA	77,76
KOILLISMAA	98,5	KUUSANKOSKI	85,02	LAPPEENRANTA	77,63
RANUA/ROVANIEMI	97,98	IVALO	84,97	NOORMARKKU	77,18
KAUSTINEN	97,93	KARSTULA	84,76	PIEKSÄMÄKI	76,95
SOTKAMO	97,93	SUOMUSSALMI	84,58	KAUHAVA	76,83
OUTOKUMMUN SEUTU	95,56	VIRRAT	84,33	KIRKKONUMMI	76,51
SIILINJÄRVI	95,15	OULUN SEUTU	83,61	YLITORNIO	75,9
ENO	95,06	JALASJÄRVI	83,44	LAPPAJÄRVI	75,83
MÄNTYHARJU	94,14	KERAVA	83,36	VAASA	75,8
KAARINA	94,13	RAUMA	83,01	JYVÄSKYLÄ	75,49
LAPINLAHTI	93,78	EURA	82,75	IMATRA	74,82
ILOMANTSI	93,52	RIIHIMÄKI	82,43	PUDASJÄRVI	74,41
VALKEAKOSKI	93,31	SUUPOHJAN RANNIKKO	81,81	PORVOO	74,29
ÅLAND	92,61	HÄMEENKYRÖ	81,32	HELSINKI	73,86
RAISIO	90,4	SODANKYLÄ	81,17	TAMMISAARI	73,82
KUHMO	90,39	PELLO	81,04	KOKKOLA	73,76
UUSIKAUPUNKI	89,71	KURIKKA	80,94	KOUVOLA	72,66
LIEKSA	89,18	SAVONLINNA	80,32	ESPOO	72,36
JUANKOSKI	88,4	HARJAVALTA	79,79	TAMPPERE	72,34
NOKIA	87,95	SALO	79,71	VARKAUS	72,31
KESKI-KARJALA	87,78	FORSSA	79,71	....	...
NURMIJÄRVI	87,73	ANJALANKOSKI	79,62	a.s.o.	

*List of Papers (latest draft)*

<i>Type of paper</i>	<i>Reference</i>	<i>Title</i>	<i>Date</i>
White Papers	WP 01	PES-Performance, Indicators, Good Practice	19/01/06
Blue Papers	BP 01	Supporting Flowcharts	23/01/06
	BP 03	Transition from Unemployment to Employment (Second draft)	28/02/06
	BP 04	Measuring effectiveness and operational efficiency of the Finnish PES	03/03/06
	BP 05	A preliminary list of eight performance indicators	06/03/06
Red Papers			
Yellow Papers	YP 01	Public Employment Services in Europe: a large spectrum of missions	11/01/06
	YP 02	Performance Indicators: A first survey on data availability and ranking	12/01/06
	YP 04	PES Background and Content Information and Indicators	06/03/06
	YP 05	A tight schedule (Second draft)	06/03/06
Green Papers			

*List of Papers (previous drafts)*

<i>Type of paper</i>	<i>Reference</i>	<i>Title</i>	<i>Date</i>
Blue Papers	BP 02	Transition from Unemployment to Employment (First draft)	10/02/06
Yellow Papers	YP 03	A tight schedule (First draft)	20/01/06

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