

ANALYTICAL PAPER

ESTABLISHING AND OPERATING PERFORMANCE MANAGEMENT IN PES



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Luxembourg: Publications Office of the European Union, 2016

ISBN 978-92-79-59522-6

doi:10.2767/166351

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The European Network of Public Employment Services was created following a Decision of the European Parliament and Council in June 2014 (DECISION No 573/2014/EU). Its objective is to reinforce PES capacity, effectiveness and efficiency. This activity has been developed within the work programme of the European PES Network. For further information: <http://ec.europa.eu/social/PESNetwork>.

This activity has received financial support from the European Union Programme for Employment and Social Innovation 'EaSI' (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>

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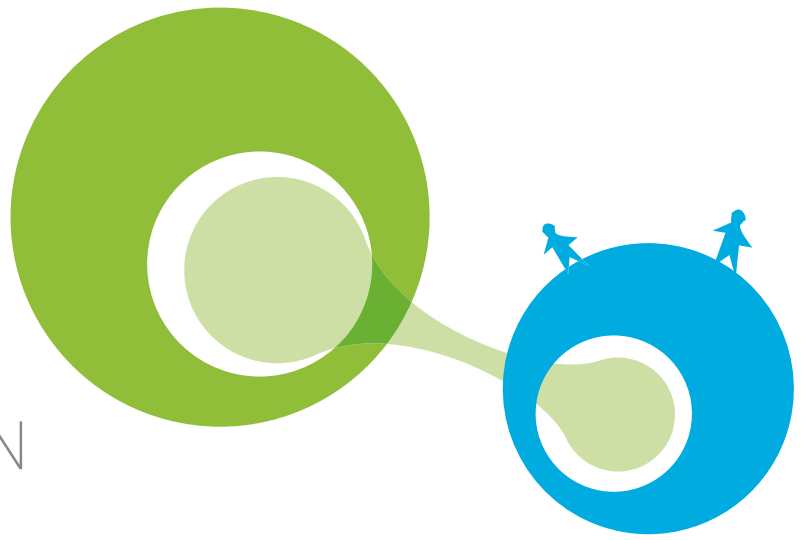
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MARCH 2016

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1. INTRODUCTION

Decision 573/2014/EU of 15 May 2014 of the European Parliament and Council on *Enhanced Cooperation Between Public Employment Services* (PES) established the European Network of Public Employment Services. This Decision established a performance framework for European PES including Benchmarking Indicators. Given this legal requirement and the dual challenges of increasingly tight public resources and new labour market conditions one of the initial priorities of the newly established Network was to encourage PES to build, sustain and enhance their performance management systems. For this purpose, the PES Network:

- Agreed on a set of metrics to assess achievement of **Benchmarking** Indicators to monitor PES performance (see Annex);
- Produced a **Revised PES Performance Assessment Framework** which is based on the European Foundation of Quality Management (EFQM)-Excellence model and identifies seven categories of performance enablers, the first one being 'Strategic Performance Management';
- Launched a series of peer review activities to support PES in evidence-based benchmarking and mutual learning, known as '**benchlearning**'¹.

The **Thematic Review Workshop** on 'Performance Management in PES' took place in Tallinn on 8 and 9 October 2015, hosted by the Estonian PES. Fourteen PES attended this workshop.

¹ For the purposes of this Decision and the activities of the Network, 'benchlearning' means the process of creating a systematic and integrated link between benchmarking and mutual learning activities that consists of identifying good performances through indicator-based benchmarking systems, including data collection, data validation, data consolidation and assessments, with appropriate methodology, and of using findings for tangible and evidence-informed mutual learning activities, including good or best practice models. Decision No 573/2014/EU of the European Parliament and of the Council of 15 May 2014 on enhanced cooperation between Public Employment Services (PES).

The workshop discussions focused on the **key considerations** when developing or reviewing performance management systems in PES, centred around two distinct topics:

- **Establishing strategic performance management:** developing objectives, determining targets and performance indicators and agreeing on Key Performance Indicators (KPIs); and
- **Operationalising performance management:** monitoring, building and maintaining a robust, efficient and effective performance management system.

This analytical paper builds on and expands the discussions that took place in Tallinn, by:

1. **Introducing** the reader to the key elements of performance management through Management-by-Objectives (MbO) and **defining** key analytical terms.
2. Reviewing the key **findings**, discusses '**lessons learned**' and offering selected **illustrations** of PES experiences which are mainly based on discussions during the workshop and desk research.
3. Presenting a fully developed, **in-depth portrayal** of three of the most advanced PES in matters of performance management, each with particular strengths that can guide reform efforts and stimulate further discussions (the evidence is based on document reviews and several interviews with PES representative from Austria, Germany and Estonia).
4. Finally, drawing general **conclusions** and succinctly summarising the key lessons learned.



2. PERFORMANCE MANAGEMENT: STARTING WITH BACKGROUND INFORMATION AND DEFINITIONS

There are a **wide variety of structures and processes** in European PES with differences in scope (range of clients/responsibilities), scale (resources and interventions available) and operative autonomy (vis-à-vis respective ministries). Despite this variation, most PES have institutionalised – or committed to – Management-by-Objectives (MbO) systems in order to deliver their services in the most efficient and effective way. MbO frameworks constitute the central pillar of PES performance management systems since they define objectives that are specific, measurable, achievable, realistic and time-bound (SMART). In some way, MbO techniques are a performance management tool that allow for high levels of **accountability** in the use of public resources, while also providing adequate levels of **autonomy** to agencies (PES offices) and agents (PES staff) (European Commission (Author: J. Timo Weishaupt), 2014). MbO as a performance management technique was first introduced to PES during the 1990s (Weishaupt, 2010). It has since evolved as technology has advanced and practitioners have learned about the advantages and pitfalls of such practices and processes (European Commission (Author: Alexander Nunn), 2012, European Commission (Author: Alexander Nunn), 2013).

Clearly, performance management also includes other techniques and tools such as tasks/project deadlines (milestones), behavioural parameters, quality management (e.g. EFQM, CAF, ISO) and many other elements. However, for this analytical paper – and in line with discussions in the Thematic Review Workshop – performance management centres on MbO techniques and associated, directly relevant operative processes and structures. These include: the process of identifying and selecting targets and indicators, regular systemic review, feedback loops and subsequent improvement, as well as supporting processes and structures, such as benchmarking, performance dialogues, and incentives. The paper thus builds on and extends previous work on performance management² conducted under the PES to PES Dialogue.³

The PES Network is currently using the following **definitions from the Revised PES Assessment Framework**, which helps to ensure a common understanding of the key analytical terms.

- 2 European Commission (2013), Review of Performance Management in Public Employment Services, Brussels, Author: Alex Nunn
European Commission (2013), Performance management in Public Employment Services: toolkit for PES, Brussels, Author: Ágota Scharle
European Commission (2012), Performance management in Public Employment Services, Brussels, Author: Alex Nunn
- 3 The PES to PES Dialogue is the European Commission's mutual learning support programme for public employment services (PES) in the European Union. It aims to contribute to the implementation of the priorities of the Europe 2020 strategy and the Employment Guidelines by helping to increase the capacity and effectiveness of PESs (see <http://ec.europa.eu/social/main.jsp?catId=964> for more information).

Defining key terms

Objectives:

Objectives are defined as requirements on the national level either determined by the legal mandate of a PES and/or the governing authority. Examples of commonly used objectives may include 'preventing and reducing unemployment', 'matching labour supply and demand', 'securing subsistence by calculating and disbursing benefits', 'fostering equal opportunity on the labour market', 'improving services for the unemployed'.

Targets:

Targets are defined as the translation of objectives into variables that can be represented by statistics. Non-exhaustive examples include 'duration of unemployment', 'vacancies acquired/filled', 'customer satisfaction', 'job-to-job placements', 'activation of unemployed'.

Performance indicators:

Performance indicators are defined as the translation of targets into measurable indices together with a precise specification of how to measure them. Examples include 'average duration of unemployment of job-seekers younger than 25', 'number of vacancies filled relative to the number of registered vacancies', 'mean of employer satisfaction index', 'number of job placements relative to the number of jobseekers', 'number of activated unemployed relative to the number of total unemployed'. Performance indicators can be outcome indicators or process/activity-based indicators. They can be quantitative or general statements about the target.

Key performance indicators:

Key performance indicators (KPI) are defined as performance indicators which are perceived as critical success factors and which are of a quantitative nature (i.e., not just a general statement).

Source: ICON-Institut in consortium with ISG; CBS and Qantas S.A., 2015, 9

The Revised PES Assessment Framework also describes what constitutes **effective performance management systems** based on the above analytical terms and based on four performance enablers: establishing the fundamentals of performance management by target-setting; translating targets into (key) performance indicators and measurement; following up performance measurement; and making use of the results of performance management (see Annex 2 for further details).

Despite the above definitions, there is still some **ambiguity** with regards to a typology of targets and indicators. Typically, distinctions used in the public administration literature include, *inter alia*, input, output, process and outcome measures. The following logic/definition is applied in this paper:

- **'Inputs'** refer to measures/resources that are put *into* the PES (e.g. specific expenditures, a set number of programme places, staff numbers or offices set up).
- These inputs are then used to create PES *activities* or **'outputs'** such as placement services, counselling, acquisition of vacancies or transferal to active labour market policies (ALMPs), which in turn may or may not affect individual clients or labour markets.
- These activities may then lead to **'outcomes'**, i.e., measurable effects of interventions on individuals. Examples include training measures that lead to subsequent employment or more sustainable (durable) employment patterns. As such, outcomes are also often related to the 'quality' of outputs.
- There is a variety of PES activities required to convert inputs to outputs and outputs to outcomes. These measurable actions are considered **'process'** measures; examples may include quality of individual action plans or customer satisfaction, and where the PES also has responsibility for passive measures, targets and indicators related to the reduction in benefit fraud or speed of processing benefit payments.

The following graphic illustrates the logic behind each type of measure: input, output, outcome and process.

Graphic 1: Types of Measures – Input, Output, Outcome and Process



3. COMPARING PERFORMANCE MANAGEMENT ACROSS EU PES: HIGHLY CONTEXTUALISED SYSTEMS AND COMPARISONS

3.1 Objectives, target and indicators in European comparison

Performance management through MbO exists in almost all European PES and those PES without this, or with only limited performance measurement systems, are eager to introduce MbO in the near future (such as Cyprus, Bulgaria and Romania). This ‘catching up’ process can also be partly attributed to the new European Benchmarking process and associated indicators introduced with the new Network.

Common to more established systems – as was confirmed during the workshop – was the need for **broadly defined objectives** which guide the operational strategy of the PES. In some cases, these objectives are defined by governments (e.g. Austria or Ireland), often in consultation with civil society stakeholders and/or the social partners. In others, where PES are more autonomous from government ministries, the PES themselves produce a multi-annual planning document, which was the case in Estonia and Germany. In all cases, it was considered important that these objectives **remain constant** over the course of several years in order to allow PES to effectively plan their strategy and deliver their services.

With regard to targets, PES in Europe rely on a wide range of input, output and process targets. Outcome targets associated with the ‘quality’ of interventions – e.g. sustainable employment after completion of a training course as monitored and measured in Austria and Germany – are less frequent (as they are difficult to operationalise) but generally of interest to all PES. There exists no ‘magic number’ of targets that would be seen as an appropriate amount as the number of targets tends to range between 8 and 29 across EU PES. The paragraphs below offer some explanation:

- On the one hand, some of the most **advanced PES** – Austria and Germany – rely on **8-10 targets**. For **Germany**, the number is the result of i) a high level of aggregation

and ii) the absence of input targets. In other words, the German targets are mostly focused on output (e.g. the number of trainees in the system), outcome (overall integration into the labour market; integration of disadvantaged groups) and process (customer satisfaction). As there are no input targets and existing targets are highly aggregated, the level of **local flexibility** is high. This means that the German PES offices at local level can utilise their ALMP resources as they see fit and devise strategies that are appropriate to their local contexts. In **Austria**, by contrast, labour market targets are only one of two pillars of the performance management system; the second pillar is a **Balanced Score Card (BSC)** that includes 29 indicators.

- On the other hand, countries that are **in the process of setting-up** or fine-tuning relatively young MbO systems tend to rely on higher numbers of targets. This may reflect either:
 - » Political sensitivities – as in the **Spanish** context where 17 highly diverse regions have high levels of autonomy (see box page 10); or
 - » The need to assure a consistent (nation-wide) approach to labour market interventions by including a relatively high number of input targets – as in **Estonia** (following a strategic reorientation of policy goals).

In general, there is a common understanding that a **smaller number of targets** is preferable, at least in the long run, as it makes the overall system less complex and more coherent to front-line staff. The experiences in both **Latvia** and **Finland** confirm this trend, as both countries have recently reduced the overall number of targets precisely due to such concerns (for the Latvian example, see box page 12).

With regards to **indicators**, the type and number of indicators used to monitor and disentangle performance also varies greatly across the PES. On the **number** of indicators, the main explanation was

rooted in the availability of (disaggregated, reliable) data; most PES recorded that access to data remains difficult. However, there was less agreement on the benefit of high levels of local flexibility in the **choice** of indicators. On the one hand, the German case illustrated that, in a context of high levels of local autonomy with broad common targets and high-quality (local) data, using different local indicators helped local PES to decide on their local strategies and priorities. It is worth noting that what matters in the German context is that local PES reach their agreed and varied target levels; the choice of interventions remains secondary. In Austria, by contrast, there is a strong belief that all PES offices and officers should use the same indicators so that transparency and comparability across and between local PES/placement officers is maximised.

Below are two further experiences from PES that illustrate just how important **context** can be to the development of a performance management system, de facto, the structure, nature and choice of targets.



Experiences from Spain – Introducing MbO in a highly complex situation of political devolution

The **Spanish** labour market policy regime represents an unusual case in the sense that there are two separately operating systems including the State Public Employment Service (SEPE), responsible for the management and control of the **unemployment benefits** (as well as unemployment allowance and other social benefits) through 52 provincial directorates and a network of 711 SEPE offices. In turn, the delivery of **active measures** is the responsibility of the **17 Regional** Public Employment Services of the Autonomous Communities. Each Regional PES acts autonomously from SEPE – but under the remit of regional governments – and has its own logo, offices, personnel payroll, and system of labor mediation (European Commission (Author: J. Timo Weishaupt), 2014, 35).

The Spanish regions are also extremely diverse with regard to population, geography, economic profiles and labour market composition. With the

rapid and very substantial increase of unemployment – in particular youth and long-term unemployment – since 2008, concerns about the effectiveness of PES interventions have been at the forefront of discussion about PES reform in Spain.

Moreover, as the overall budget for labour market policy *decreased* – given the need for financial consolidation – and labour market expenditures were heavily *skewed* in favor of passive measures, the need to introduce a systematic, nationally coordinated performance management system manifested itself (de la Rica, 2015).

As an entirely new system had to be built from scratch in a highly complex and politically sensitive context, the Spanish stakeholders agreed on a framework with a relatively high number of targets and indicators, in order to

- a. build a consensus as all players were able to include aspects most relevant to their region
- b. allow for the development of an overall comprehensive strategy that guides the development of labour market policy across the Spanish regions.

The Spanish performance management system known as *Assessment Framework*, and launched in 2013, is built on two sets of objectives: (1) strategic (political) and (2) structural. The key difference is that the strategic objectives reflect political goals at any given time and thus vary as challenges and priorities shift (e.g. Youth Guarantee); structural objectives, in turn, are concerned with PES functions and are thus relatively stable. Both sets of objectives are given equal weighting, which is intended to avoid politicians focusing only on strategic goals while neglecting structural ones (e.g. focusing on reducing youth unemployment while sidelining building an effective training system). These are *not*, however, targets that are used to assess the performance of ALMP programmes (of which there are over 400 nationwide) which remains the responsibility of the Autonomous Communities.

There are **five broad 'strategic objectives'** that guide reform efforts (via targets) which are broken down into 13 performance indicators:

- ▶ improve the employability of youth/implementing the Youth Guarantee,
- ▶ improve the employability of other disadvantaged groups (e.g. 55plus, long-term unemployed),
- ▶ improve the quality of training,
- ▶ strengthen the link between passive and active measures, and
- ▶ drive entrepreneurship.

The structural objectives in turn are divided into the following six axes (with associated targets) which are further broken down to a total of **48 performance indicators**:

- ▶ guidance
- ▶ training for employment
- ▶ opportunities for employment
- ▶ equality of opportunities
- ▶ entrepreneurship
- ▶ institutional setting

Hence, there are currently a **total of 61 indicators** with associated scores which are calculated for each of the targets. The aggregated scores are used to compare the regions' performance and reward improvement by assigning higher budgets in the following year. This system, despite its complexity, has led to an increase in performance scores from 2014 to 2015 and stimulated 'upwards competition' between the regions (de la Rica, 2015). It has yet to be evaluated, however, if the increase in performance scores has also led to a meaningful improvement e.g. in job placements (e.g. appropriateness and sustainability), training quality (does participation lead to more/better employment) and a more efficient use of resources. Experiences from Ireland –

Training Boards (ETBs) offer training and education services, the PES (exclusive of the training function previously carried out by FÁS) became an integral part of the Department of Social Protection (DSP). By the end of 2016, 60 Intreo centres will have been established, serving as a single point of contact for a variety of employment and support services for both jobseekers and employers. In order to manage the performance of both the new PES activities and the roll-out of the PES structures, a broad multi-stakeholder strategy was set out and, after soliciting independent reviews, formalised with the **Pathways to Work** strategy. The document includes a 50-point plan of how to tackle (long-term) unemployment and specifies a number of qualitative and quantitative targets to be reached by the end of 2015. Currently, broad government-initiated consultations are taking place to prepare a new policy guiding document for the 2016–2020 period. There are **nine (quantified) overarching PTW targets** which are converted to **17 Actions** and over **45 Milestones** to be achieved. Targets may be for one agency/Ministry or a combination of two or more. PTW targets within DSP are not typically sub-divided beyond the aggregated national level.

3.2 How PES establish, review and adapt their systems over time

Once an MbO system has been established it requires **continuous** feedback, systematic review, and, if necessary, adaptations.

The systematic, high-level review process is organised, relatively speaking, in a similar way in all PES. All PES headquarters (or ministries in cases of integrated PES) review progress toward their (high level) targets annually. During this review process, the (PES specific) targets and indicators themselves are also discussed and reviewed (and, if relevant, new political priorities introduced). Three key trends/lessons emerged as being crucial to a review process:

- First, performance management through MbO relies on **access to valid data**; hence, only those aspects of PES activities/interventions that can be measured can be managed through MbO. This means that PES decision-makers are dependent on both the availability of data input and data management through IT staff and controlling units.



Managing performance in the re-launch of the new PES

The **Irish** case is similarly atypical. The Irish PES, formerly known as FÁS, which was responsible for employment and (vocational) training/further education services (but not benefit/social assistance administration and payment) has been dissolved and entirely remodelled from 2012. While sixteen newly established Education and

- Second, system reviews usually take place with a high-level review at the end of an annual cycle. Thus, **regular input** and organisation-wide feedback needs to be actively solicited and made available throughout the year. Communication across different levels of management, between management and front-line staff and between management and IT/controllers units (perhaps in the context of workshops that also includes frontline staff (e.g. Germany)) throughout the year is crucial in order to recognise structural or procedural weak spots and/or inefficiencies, detect unintended consequences, or identify 'cheaters' in the system. Recent reviews and adaptations of performance management systems through extensive, often face-to-face staff consultations were reported in several countries including Estonia, Finland, Lithuania, Spain and Slovenia and were often supported through online platforms and portals.
- Third, the introduction of new targets requires **preparation and communication**. In most instances new PES targets are not imposed by decision makers. Rather, once agreed upon, targets are introduced in a stepwise fashion.

Firstly, they are incorporated into IT-systems/ Data Warehouses and are visible to management and frontline staff; only subsequently do they become part of the performance score calculations. This way, management and staff can gain experience with a new target and, if necessary, make adaptations before the target is fully launched (e.g. Austria and Estonia). During this period, communication is key as questions and concerns need to be addressed and acceptance and trust built into the new target. In cases where targets need to be introduced quickly, communication and transparency is even more crucial, and ideally, new targets should build on previous indicators and experiences (e.g. Germany).

Based on the Thematic Workshop, there is no evidence that **budgets for local interventions** (staff/ALMP) are jointly reviewed with high-level annual target levels, nor was there a clear need articulated that this should be done. Such a decision partly depends on the overall system of governance, e.g. whether PES have their own operative budgets; and even if they do, whether this budget is distributed to local PES offices. Even for PES



Experiences from Latvia – How an external review leads to major improvements

The **Latvian** PES has used MbO as a performance management tool since 2000. The system was reviewed in 2009 and then again in 2014. The 2014 review was undertaken by an external consultant and revealed several areas for development which have subsequently helped the PES in reforming the performance management system.

Improvement was largely down to the following aspects:

- ▶ the strategy outlined by the ministry and the targets applied in the MbO framework, differ;
- ▶ MbO results are not sufficiently analysed (and thus conclusions on performance improvements/actions needed cannot be drawn);
- ▶ greater clarity is needed on how the central PES can influence MbO targets; and
- ▶ different structural units refer to different planning documents.

This review has led to a series of changes, including:

- ▶ a drastic reduction in the number of MbO targets (and greater clarity);
- ▶ a clearer hierarchy of planning documents;
- ▶ a clearer operational sequence, beginning with the articulation of the overall strategy, leading to the definition of targets (informed by previous performance, forecasts and strategic goals), followed by the preparation of state budgets (including ALMP) and planning of associated measures by local offices. This then leads to the formulation of operational plans which are monitored monthly, discussed in quarterly meetings, and reviewed by management;
- ▶ a stronger involvement of staff in the process of preparing key documents and setting targets; and
- ▶ an increased awareness of all employees about their contributions to the achievement of targets.

that have independent ALMP budgets, such as Austria or Germany, the answer to this question is not straightforward. Indeed, not all interventions are expensive or strongly affect target levels. For instance, high-quality training courses that lead to a vocational degree may be expensive, but they will not affect labour market integration target levels in a substantial way. In turn, increasing employment of the most disadvantaged jobseekers in a sustainable way is a very difficult task without appropriate and often costly interventions. Moreover, many PES interventions that require higher levels of resources may be part of a local strategy/priority, but are not reflected in the national range of targets. In short, while targets and resources should be discussed jointly to assure that target levels are realistic to achieve, **budget considerations generally go beyond targets and the MbO system.**

3.3 It takes more than good design to operate and maintain an effective and efficient system

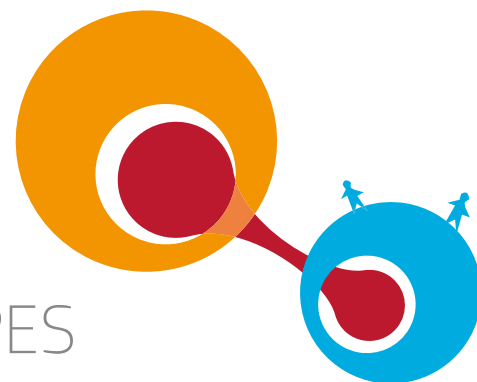
Operating and maintaining an effective and efficient system requires supportive structures and processes that create **ownership, trust, and commitment** (i.e., staff internalise and believe in the (new) MbO techniques). At the same time, MbO systems need to generate ‘upward competition’ without undermining team spirit (i.e., where individual performance rewards create incentives not to share good practices or assist colleagues who perform less well), promote (and reward) high performance without creating disillusionment and frustration among low-performers, and consider the needs of customers and staff alike in reaching certain numeric outcomes (i.e., the best intervention to reach certain targets but not be the best intervention for a customer). In this context, three areas were identified as most important: benchmarking, performance dialogues, and incentives.

Benchmarking the performance of local PES offices is a necessary element of performance management. However, how to compare performance *fairly*, remains a delicate issue. Some of the more advanced PES rely on various forms of **clustering techniques**. Indeed, in both Germany and Austria, the PES headquarters compare and contrast the performance of local PES offices with comparable labour market situations. Both countries can rely on high-quality data, high levels of transparency

and sophisticated statistical techniques to apply their clustering approaches. Even though such approaches are not always considered ‘fair’ by experts (Kaltenborn et al., 2010), both countries have relied on these techniques for many years and generally consider their systems appropriate and successful. However, other countries do not rely on clustering techniques due to political or data reasons (e.g. France, Poland or Spain) *and/or* because they consider their country too small to generate reasonable clusters (e.g. Cyprus, Latvia or Estonia). PES then rely on **alternative techniques** such as the use of comparative statistics, dash- or scoreboards, and/or the comparison of contextualised performance scores (e.g. France).

Performance dialogues typically feature in all PES. Several different types can be observed depending on who is involved, at which level of governance, and with what purpose or goal. Firstly, there are **vertical** performance dialogues, which take place between higher and lower levels of management, e.g. PES headquarters and sub-national PES management. There, discussions are part of a monitoring/reporting exercise, where good practices are identified and areas of risk – i.e., targets that may not be reached – are discussed and preventative/reactive interventions are suggested. Secondly, there are **horizontal** performance dialogues where PES managers review the performance of their staff, solicit feedback, or introduce new operative features or priorities. In addition, some types of ‘**manager-to-manager**’ dialogues are often in place (e.g. Austria, Estonia, Germany or Slovenia) where managers from the same region (or even the entire country, as in Estonia) come together to discuss performance related issues and other operative matters.

Finally, performance management is typically associated with some type of **incentive** system. In some countries, incentives are **both financial and non-financial**. Financial incentives typically award high performers with end-of-year bonus pay, which can be up to half a month’s salary.. However, non-financial incentives are equally important and range from symbolic awards (e.g. best placement officer) to career opportunities and extra holiday pay (e.g. Lithuania). With several countries not legally able to apply financial incentives (e.g. Cyprus), the importance of non-financial awards is even stronger. The Estonian and Austrian cases, for example, illustrate how acknowledgement of good performance by awards and certificates is highly appreciated by staff (see section 4).



4. USEFUL ILLUSTRATIONS FROM MORE ADVANCED PES

In this section, the performance management systems of **three PES** are described and discussed in greater detail. Two experienced PES – **Austria** and **Germany** – are featured, with fully operating and institutionalised performance management systems. Both PES continuously *fine-tune* their systems to maximise efficiency, effectiveness and quality in service delivery. In addition, this section features **Estonia**. This PES launched a performance management system in 2009, i.e., during times of high economic uncertainty, yet has since reached a stage of system consolidation and a high level of maturity. While the Estonian PES illustrates how setting up a new PES with a sophisticated MbO system is possible even in the most difficult context, the **German** PES highlights the possibilities that exist if and when high-quality data and highly trained staff are available. While the German system is certainly time and resource intensive and took several years to build, it is seen as an investment well worth the (financial) effort. Finally, even though the **Austrian** PES is relatively small when considering staff and resources, it is also a highly professional, effective and efficient PES that is ‘owned’ and supported by staff, policymakers and stakeholders alike (Soentken and Weishaupt, 2015). Relevant actors in the system believe in and are committed to continuously improving the system.

The PES illustrations below follow the same structure as before by focusing on i) objectives, targets and indicator setting; ii) reviewing and adapting systems, and iii) operating and maintaining an efficient and effective system. In addition, important background information is provided as it is seen necessary to situate, and thus understand, the PES in their national contexts.

4.1 Germany⁴: the data powerhouse

A Local autonomy and strong regions

The German PES (*Bundesagentur für Arbeit*, BA) is a self-governing body created under public law.

4 All information provided here refers to the area **unemployment insurance** (Social Code III) only. The performance management system for the minimum income scheme (Social Code II) operates very differently.

The BA has a mandate to deliver integrated, multifaceted services, including the administration of unemployment insurance benefits, the realisation of ALMP and lifelong learning measures, and the provision of occupational and vocational guidance (European Commission, 2014, 1).

The organisation of the PES is structured along three tiers of governance: national headquarters (located in Nuremberg), ten Regional Directorates, and 156 local Employment Agencies (plus some 617 additional business offices, which are governed by a respective Employment Agency). The BA is headed by a three person Executive Board who represent the BA externally and manage daily operations. The tripartite **Board of Governors**, in turn, is the BA’s main ‘monitoring, advisory, and legislative body’ responsible for the BA *strategic decisions* and the *appointment* of the Executive Board. The Executive Board consults the Board of Governors on all important issues, and decisions are typically made unanimously. The Board of Governors also approves the BA’s budget and enjoys a variety of information rights.

The **Regional Directorates** are also managed by three-member boards, appointed by the Executive Board. The Regional Directorates mainly function as transmission belts between the BA headquarters and the local Employment Agencies while monitoring, communicating with, and giving advice to the local Employment Agencies. The Regional Directorates also help with the planning and implementation of the *Länder* governments’ labour market programmes. The social partners and political stakeholders (ministries) are consulted in advisory boards which were (re-)institutionalised in 2012.

The **local Employment Agencies** operate under a high degree of autonomy with respect to the use of their budgets, the priorities of the instruments, and the selection of partners, provided they reach their target levels (see below). Local administrative boards, which include representatives of social partners and political stakeholders (mayors and district administrators), advise and monitor the local management boards.

B New frameworks and a revised strategic orientation to define objectives and set targets

Political objectives and operational goals

In 2011, the Federal Ministry of Employment and Social Affairs (BMAS) negotiated for the first time labour market policy objectives with the PES (a so-called *Rahmenzielvereinbarung*). These goals were renewed and changed slightly in 2015. While these objectives guide the strategic orientation of the PES, the government can always supplement them as new priorities emerge (e.g. the current challenges associated with the influx of refugees). There are **four politically determined objectives** including (1) to improve labour market matching, (2) to prevent long-term unemployment, (3) to assist with structural change in the local economy, and (4) to assure gender mainstreaming in employment promotion. Objectives one to three are translated into one to six *monitoring targets* and two to three performance indicators; objective four is an overarching objective (without a specific target) in the sense that all indicators as far as possible are broken down by gender. The PES publishes an associated report once a year.

In addition to and partially in congruence with these politically determined labour market policy goals, the BA defines its **own broad operational goals**, which include (1) improving counselling and integration in a sustainable way, (2) motivating BA employees and identifying their potentials, (3) operating in an effective and efficient way, and (4) achieving high levels of customer satisfaction.

Setting numeric targets and identifying quality-related indicators

The Board of Governors and the Executive Board jointly decide how political and operative objectives are translated into numeric performance targets. The BA typically **defines 8 to 10 numeric targets** which remain relatively constant over time. The last substantive review took place in 2012/2013 after the German Federal Court of Auditors (FCA) raised some concerns that the given system may lead to ‘creaming’ and the focus on quantity over quality outcomes (i.e., a focus on clients easier to place over disadvantaged or weaker groups (Bundesrechnungshof, 2011)). The

position paper ‘**BA 2020**’⁵ published in the autumn of 2012 represented the starting point for a wide-ranging strategic reorientation of the BA (e.g. focusing on emerging skills gaps) and also gave way to a fine-tuning of targets associated with the BA’s operative goals in 2014.

The new system introduced a set of new targets and a newly weighted index that measures the performance of local Employment Agencies. Currently, there are **ten quantified targets**, whereby **four** are considered ‘**results**’ targets⁶ (these have remained relatively constant over the years and are worth 70% of the final score) and **six** which consider the ‘**structure**’ of these results (these are partially new and were set in response to the FCA critique and the BA 2020 focal points, worth 30% of the final score). These new ‘structure of results targets’ include **four quality-related output targets** (increasing the percentage of long-term integrations, percentage of integrations of jobseekers with more than six months BA contact, the number of vacancies filled in small and medium sized businesses, and the ratio of disadvantage youth participating in vocational education) and **two quality-related process targets** (customer satisfaction and counselling quality). This mix of targets gives the system a more balanced or ‘Balanced Score Card (BSC)-like’ quality and is more sensitive to the needs of harder-to-integrate groups. Generally, it is observable that, over the course of time, the BA has tried to move away from *absolute* numeric targets (e.g. the number of integrations or the number of VET places filled) and relies more on *relative* targets (e.g. ratios and percentages) in order to be more sensitive to changes in (market) contexts.

At local level, the managers of Employment Agencies can also include/negotiate (but are not obliged to) with the respective Regional Directorates an additional target (called, ‘free target’) in order to adequately address local particularities or introduce an additional strategic focal point (see page 16 for more information and examples).

5 Download available here: <https://www.arbeitsagentur.de/web/wcm/idc/groups/public/documents/webdatei/mdaw/mta2/~edisp/l6019022dstbai437412.pdf>

6 These include (1) percentage of unemployment prevention, (2) percentage of integrations, (3) duration of unemployment, and (4) ratio of vocational trainings to school graduates.

Table 1: Past and current system of targets in Germany

2012 TARGETS	<ol style="list-style-type: none"> 1. Percentage of job-to-job integrations relative to job-to-job customers* 2. Percentage of integrations relative to potential customers** 3. Duration of unemployment: customers receiving benefits 4. Duration of unemployment: customers <i>not</i> receiving benefits 5. Percentage of job vacancies filled relative to potential customers 6. Number of long-term integrations 7. Customer satisfaction index – job seekers 8. Customer satisfaction index – employers
2015 TARGETS	<p>Four 'result' targets (weighted 70%)</p> <ol style="list-style-type: none"> 1. Percentage of unemployment prevention 2. Percentage of integrations relative to potential customers 3. Duration of unemployment 4. Percentage of vocational trainees relative to school graduates <p>Six 'structure of results' targets (weighted 30%)</p> <ol style="list-style-type: none"> 5. Percentage of long-term integration 6. Percentage of integration of jobseekers with contact > 6 months 7. Percentage of placements in small and medium-sized enterprises 8. Percentage of vocational trainees without/with only the lowest school certificate to all vocational trainees 9. Overall customer satisfaction 10. Counselling quality

* In Germany, employees are required to inform the PES when a contract is about to expire, e.g. while they are still in employment. Job-to-job transition thus refers to a person who moves from one job to another without the receipt of unemployment benefits in between. In the past, customers may not have informed the PES and thus the placement officer had to call the customer to verify his or her status such that the person would be 'counted' in the performance system. The new indicator simply measures if unemployment could be avoided and thus the placement officers can focus on assisting job-to-job customers in their search efforts without having to waste resources (time) to count customers who found jobs on their own.

** Integration refers to a person entering the labour market with or without a (direct) PES intervention.

C Bottom-up target setting, local level flexibility and consultations that inform reviews

Setting optimal target levels, deciding on and storing data to support indicators

In the recent past, the BA headquarters defined target-level 'corridors', or a range within which target levels should operate for local Employment Agencies based on mathematical calculations, and indicators which were then assigned via the Regional Directorates with some room for negotiation (European Commission (Author: Alexander Nunn), 2012, 46). **Since 2013**, the target setting system has operated differently. Now, the local directors of the Employment Agencies consult their team managers and based on predictions of labour market developments, the current stock

of clients, and the strategic focus of the PES branch define target levels to be reached themselves in the context of drawing up annual business plans (which also includes budget requests for ALMP). In some offices, this **bottom-up process** leads to ambitious targets and no further target adjustments (negotiations) are needed; in other cases, the Regional Directorate negotiates with the manager to increase targets. Once target levels are agreed, they remain fixed throughout the year; however, resources and selected ALMPs may be altered when unforeseen developments affect the performance of an Employment Agency (European Commission (Author: Bundesagentur für Arbeit), 2013, 5).

In order to make the process of setting target levels more objective, a new statistical tool – the so-called **Chance Model** – has recently been devel-

oped. The Chance Model identifies 13 variables that are most likely associated with labour market integration outcomes. For each of the variables, the likelihood for a local Employment Agency to improve integration rates is estimated, taking local contexts into account. Each Employment Agency then receives a combination of *chance points* (reflecting the potential to improve target levels) and *relevance stars* (which reflect how relevant the variables are for a given set of chance points-based result or put differently, if more analyses are required to be more confident about the potential). This tool is currently used only for one target, namely the *percentage of integrations relative to the customer base*, but may be expanded to other targets in the future given scientific evaluations and feedback from practitioners.

While all Employment Agencies contribute to the ten targets outlined above, the associated **performance indicators** used to monitor target achievement may vary based on their strategic focuses. In other words, there are a large number of performance indicators that may be used, as any target can be broken down in a variety of ways (gender, age, ethnic background, educational attainment etc.). So, if an Employment Agency decides that they want to focus on youth, they may assign a so-called free target and then monitor youth integration in a more detailed way (and shift budget priorities accordingly) than an Agency that focuses on structural change and demographic ageing. This system gives Employment Agencies the flexibility to set their own strategic goals, while their contribution overall still aims at larger targets. The data on targets and indicators itself is stored in the **Data Warehouse**, which controllers use for deep analyses of the performance management process. A reduced and easier to operate version with a variety of options for graphic visualisations – the **Management Information System** – is used by managers for operative purposes (European Commission (Author: Bundesagentur für Arbeit), 2013, 7).

The process of reviewing and adapting indicators

Targets and associated indicators may be adapted or replaced **once a year**. Typically during the first half of the year, the controlling unit presents suggestions to the Executive Board on targets to adapt or replace. The proposal includes feedback from both *internal IT-specialists* at the BA headquarters and information gathered in *workshops* held jointly with experts from Regional Directorates or Employment Agencies who may have encountered problems or have suggestions for improvement. The

Executive Board may also make suggestions based on their strategic considerations. The (amended) proposal is then discussed in-depth with the Board of Governors who make a final decision. By the end of the year a decision has to be final and operational to take effect during the next business cycle. Newly identified targets typically need about nine months until they are fully operational.

In addition, the Institute for Employment Research (IAB) was asked to evaluate the effect of the new performance management system by conducting structured interviews with placement officers over the course of three years. In December 2015, the first evaluation report is scheduled to be presented to the Executive Board.

D An experienced PES in benchmarking and rewarding performance

Over time, the BA has developed several procedures and instruments to operate its performance management system effectively and efficiently.

Comparing performance

The most important operational features in the BA include:

- **Clustering:** Once targets are set and indicators selected, there are benchmarking exercises between PES offices, and performance is monitored and assessed on a monthly basis by the internal controlling units. Once a quarter, performance reports are presented to the Board of Governors.
- **TrEffeR:** In the years 2005-2007 the BA developed jointly with two professors a new procedure to evaluate the effects of ALMP called TrEffeR (Treatment Effects and Prediction). With this procedure two groups are compared with statistically identified identical characteristics, except for the BA intervention. TrEffer can thus estimate if an intervention has caused an effect (e.g. sustainable placement in work) and tracks participants up to four years after treatment. Results are available in aggregated form in the BA's Data Warehouse and thus help managers to make strategic decisions (Büttner et al., 2015).

Measuring and rewarding performance

Regular performance dialogues are held at various levels and in various forms:

- First, there are regular meetings where performance trends are *reported* at central, regional, and local levels, i.e., between the Executive Board and the Board of Governors, the Regional Directorates and the respective Advisory Boards, and the Employment Agencies and the local Administrative Boards.
- Second, besides these *horizontal* reporting events, there are *vertically* organised and action-oriented performance dialogues between the local Employment Agency management and the respective Regional Directorate (on a needs basis) as well as the Regional Directorates and the Executive Board (on a quarterly basis). The goal is to identify performance risks and discuss how to address those risks.
- Third, the local Employment Agency managers meet typically once a month with their team leaders to discuss performance, identify areas where local targets are at risk, and also identify measures to address these risks. During these performance dialogues, the head of the local Employment Agency is present as well as the local controlling expert, the team leaders, and a so-called performance advisor from the Regional Directorate. Given the involvement of the performance advisor (and the transparency of data in the Data Warehouse), the Regional Directorates are well informed about the performance at local levels.

Besides performance dialogues, the heads of local Employment Agencies of one region meet several times annually to discuss, *inter alia*, **performance related issues**.

Furthermore, heads of Employment Agencies as well as local unit or team leaders sign their own target agreements. While unit or team leaders (who are paid on the basis of collective wage agreements) may receive small, **individual bonuses** on target achievement, the managers of an Employment Agency may earn substantial financial rewards. In either case, however, promotion prospects are the main motivation for good performance.

4.2 Austria: ownership from the top to the frontline

A An influential administrative board

The Austrian PES (*Arbeitsmarktservice*, AMS) operates as a one-stop service centre, responsible for the administration of unemployment insurance ben-

efits, job placement and counselling, and referral to active labour market policies (ALMPs) for all job-seekers. The AMS has a three-tier governance structure, comprising national headquarters (located in Vienna), nine regional offices (one in each of the nine federal states or *Länder*), and some 100 local PES offices. At the national level, it is headed by a two-member **Board of Directors**, who act as executives and run the daily operations of the AMS. The Board of Directors serves two principals: the Federal Minister for Labour, Social and Consumers' Affairs (BMASK), who formulates the government's broad labour market ambitions (which are translated into specific targets by the AMS, see below), and the tripartite **Administrative Board** which is the highly influential decision-making body. The Administrative Board consists of nine full members: three representatives from federal ministries (one from the finance and two from the labour ministry), and three representatives from each of the two social partner umbrella organisations.

While the national headquarter develops the strategic goals of the PES for Austria as a whole, the **regional office** managers not only transpose national targets into the regional context, they also (a) formulate their own regional objectives, (b) collaborate with *Land* governments, municipal authorities and any other relevant stakeholders, (c) plan the regional budget and distribute it among the local PES offices, (d) direct, support and monitor the local PES offices, and (e) select instruments and programmes that deal with specific issues relevant to the *Land's* economy (Nachtschatt and Schelling, 2010, 5).

At the **district level**, the local PES offices deliver labour market services to their customers – job-seekers and businesses alike. The local offices define the principles for policy implementation at the local level, but are expected to fulfil the targets set by both federal and *Land* organisations. The local office managers run daily operations, consulting as necessary the tripartite, six-person Advisory Board (Nachtschatt and Schelling, 2010, 5).

B The home of MbO and the Balanced Score Card (BSC)

The Austrian PES (AMS) has been operating and continuously updating a Management by Objectives system since 1996. Its system consists of **two separate, yet connected, performance management systems** including annually set labour market targets and associated performance indicators, and the BSC.

While the first type originates from **national objectives** defined in the context of the Europe 2020 Strategy and the government's labour market agenda, the BSC is an AMS-internal instrument to *holistically monitor* AMS procedures and outcomes (enablers and results of AMS's core tasks, including high levels of service quality). The BSC is a self-referential system to identify room for improvement by benchmarking the local offices (European Commission (Author: Arbeitsmarktservice), 2013). While labour market targets are restricted to a maximum of 10, the BSC in 2016 comprises 28 targets including a variety of process and quality oriented targets such as services to employers, call centre services, and management processes.

The AMS's **labour market objectives** are set by the government and published in the Austrian National Reform Programme (NRP) and the

(associated) target specifications document published by the Federal Ministry of Labour, Social Affairs and Consumer Protection. The ministry's target specifications remain relatively **constant** (even when governments change; the last two were published in 2006 and 2010 respectively) and reasonably **broad** in the sense that objectives are set without specific numeric values. These broad objectives are then translated into more specific **annual labour market policy targets** (normally eight, but up to eleven has happened in the past) which in turn are monitored through several quantified **performance indicators**. One additional target is typically set at regional (*Land*) level while an additional local level target remains optional.

The following example illustrates the translation of one core objective into three targets and associated performance indicators (PIs) as set for 2016.

Table 2: Political objectives, targets and associated indicators 2015 (vs. 2014)

(changes are highlighted in bold letters (see comments below for explanation))

POLITICAL OBJECTIVES	NUMERIC TARGETS (10)	PERFORMANCE INDICATORS
Prevention of long-term unemployment	1. Integration in labour market within 6 months	Gender, Age > 45
	2. Youth remaining unemployed or without a VET position for more than six months	Age < 25
	3. Sustainable labour market integration of persons far from labour market*	Age > 25
	4. Women returnees' reintegration in labour market or further education	One combined indicator (as absolute number)
Securing the effectiveness of labour market training	5. Labour market integration	Integration rate three months after concluding training
Improving labour market opportunities for higher-skilled persons	6. Labour market integration of women partaking in FIT (women in technological occupations)	Integration rate after concluding programme
	7. Labour market integration of migrants partaking in a VET completion programme	Integration rate after concluding programme
Securing the involvement of the AMS in the job market	8. Filled vacancies (including VET)	Number of filled vacancies (including VET)
	9. Acquisition of vacancies with required qualification of at least VET	Number of vacancies with required qualification of at least VET listed through AMS
	10. Acquisition of vacancies with a monthly salary of at least EUR 1900 (gross)	Number of vacancies below/above EUR 1900 monthly gross salary

* These are persons who did not work more than 2 months in the last year and were unemployed for at least 4 months.

Political objectives remained constant from 2014 to 2015, however, some of the targets/indicators were adjusted. One new target was added, namely measuring the number of higher paid vacancies available through the AMS. This was a strategic decision to (a) make the AMS more attractive/change its image as a jobs broker for mainly low-skilled/low-pay jobs, and (b) to send a signal that investment in skills is rational as there are jobs available with higher pay. Given the addition of a new target, the target for women returnees' reintegration into the labour market or further education was combined into one, thus keeping the overall number of targets constant (at 10). Finally, the target for FIT participants was altered from an input target (number of participants) to an outcome target (integration in labour market after programme completion).

Besides reducing the overall **number of national targets** to eight, there are two main additions in 2016. First, a target has been introduced that 50% of ALMP expenditures need to be spent on women (although women represent less than 50% of jobseekers). The rationale is that women are disadvantaged and that higher expenditures will compensate (some) of this disadvantage. Second, there is the target to ensure that migrants receive the same level of employment promotion measures as non-migrants (i.e., that expenditures reflect their proportion in the PES registry).

C A holistic and transparent approach to setting targets, adapting resources and storing data

ALMP targets and indicators are negotiated every year by the AMS, the federal ministries of labour and finance, representatives of the state (Land) governments as well as the social partners (employer associations and trade unions). The process starts in **March**, where past performance and future expectations are calculated against the backdrop of the current overall politico-economic situation (including, for instance, programmes planned by the federal ministry). By **June** the targets and indicators are set and by Autumn figures are fixed. The associated **deliberation** and negotiation process combines setting targets with resources, i.e., discussion always includes (a) what is **realistic** to achieve?, (b) can we **monitor** outcomes appropriately?, (c) what kind of **interventions** are needed?, and (d) what **resources** are

required? When new targets are introduced, they are first piloted for one year (e.g. target No. 10 in Table 2). This means that the targets are introduced into the IT-system, but do not affect performance calculations. Existing targets and indicators are annually reviewed and, if necessary, adjusted or dropped.

In contrast to Germany, the AMS then negotiates target levels with the **nine Land governments** on the basis of statistical calculations. These calculations are based on retrospective data e.g. what performance could have been expected if the average value is taken as a point of reference, as well as forecasts that are provided by three independent national institutes. The same model is used for all nine Länder governments; target levels are calculated for the Länder as well as all the local PES offices alike.

Once the Land governments have agreed on target levels, the local PES are required to draw up their annual business plans by February the following year. These business plans outline their contributions (target levels) to the regionally defined targets and offer clear strategies of how to achieve these goals. The social partners are closely involved in drawing up the annual business plans. Once set, these **target levels remain fixed** for the year and all PES use the same portfolio of indicators to monitor progress. If circumstances change, targets are not adjusted (except for 2009, when the global economy nosedived) but resources may be rearranged. The use of the same targets and indicators nation-wide ensures **transparency** (also the rules of calculation are transparent) and reduces data manipulation (i.e. no one can pick and choose indicators that work best for them). The data on targets and indicators is stored in the Data Warehouse which is accessible to managers and placement officers alike.

In addition to this annual process, the AMS headquarters conclude three-year target agreements with the nine Länder, in which target levels are agreed upon all BSC items (hence more than in the annual business plans) and specify the associated strategy, including a variety of measures (programmes, instruments, interventions, staff ratios, processes, etc.). The AMS negotiates three such agreements per year during so-called site visits. The Länder are then required to produce a mid-term and a final report.

D Six clusters of performance, learning from others and strong 'soft' incentives

Over time, the AMS has developed several procedures and instruments to run the performance management system effectively and efficiently. The most important features include:

Comparing performance

The Austrian performance management system is considered fair as targets are realistic, there is no ambiguity in measurement or monitoring, and local PES are compared **in six clusters** (of 10-20 each) with similar labour market situations (European Commission (Author: Anna Adamecz), 2013, 6). The overall performance is calculated and represented as a single numerical value (European Commission (Author: Arbeitsmarktservice), 2013, 2).

In addition, the AMS rewards and encourages the exchange of information across local PES offices so that low-performers can learn from high-performers. The three best ideas are presented at an annual convention and receive an honorary mention/bonus. Moreover a **'good practice database'** presents examples of how to cope with common challenges and identify practical lessons that can be shared.

Measuring and rewarding performance

Performance is monitored throughout the year. The regional offices aggregate local PES office data and communicate with the central PES. At federal level, the Administrative Board reviews the performance achievements every three months and discusses the results with the Board of Directors. At local level, PES office managers also regularly consult their team leaders to discuss performance.

The most **innovative** feature of the Austrian PES is the **'lessons learned' process**, in which local PES list measures which they have used in order to achieve the BSC targets and rate them in terms of 'impact' (how effective the measure is) and 'effort' (investment needed). In an accompanying document, they explain the measures in more detail. A year later, the strategy is reviewed and lessons are drawn about what worked and what did not work. The experiences are reported in a database and made available to all other PES. With the

use of the database, PES offices can come together and 'low' performers can visit PES with an innovative measure and/or copy the approach. Every year, three PES are awarded for either sharing, or for introducing, a good practice. These PES are also invited to present their measures on various occasions, presenting an opportunity to showcase good practice.

Performance is rewarded through **individual wage bonuses** (yearly bonuses up to about 50% of a monthly wage). This system is considered successful as it is based on clear standards and comparison. Indeed, the bonus depends on a score calculated in the BSC for the local level – all LMP targets are factored in – and can be monitored throughout the year. This way, each individual can see at any time on which indicators improvements ought to be made. A previous system in which individual managers had the discretion to award bonuses is seen as sub-optimal as it can either lead to subjective judgements (which may lead to resentment) or to managers equally sharing the bonus among staff (which thus fails to recognise individual achievement). Besides the financial reward, the symbolic recognition of good performance is honourable and employees feel recognised and appreciated.

4.3 Estonia: a new PES in response to the financial crisis

A One of the youngest PES in the EU

In 2009, the Estonian Unemployment Insurance Fund (Töötukassa, EUIF) took over the PES functions from the Estonian Labour Market Board. The EUIF is an independent public body rather than a state agency. The PES relies on an independent finance model (UI contributions) and performs its activities – administration of unemployment insurance and organisation/implementation of active labour market policies – independently from government, but on the basis of a mission statement and operational rules defined by law (in particular the Unemployment Insurance Act and the Labour Market Services and Benefits Act). This gives the Estonian PES a relatively high level of autonomy when it comes to its organising strategy, albeit with a clear responsibility to deliver services effectively and efficiently.

There are **two tiers of governance** including national headquarters which are located in Tallinn, and 15 regional PES offices with 27 client-service points in total, offering employment and benefit services to jobseekers and employers. Organising the daily PES operations is the remit of a four-person executive **Management Board**, while the main decision-making body is the six-member tripartite **Supervisory Board**, which includes the the Minister of Health and Labour and another representative of the government, usually from the Ministry of Finance. The Supervisory Board also passes the PES's annual budget and confirms the two-year Employment Programme (see below) (European Commission (Author: EUIF), 2013, 2).

B Relative autonomy of the PES and a focus on impact

The operative strategy of the Estonian PES is informed by a variety of sources. Most importantly, the Labour Market Services and Benefits Act passed by the Parliament defines **three broad labour market objectives** including, (1) achieving maximum possible employment rates among the working population, (2) preventing long-term unemployment, and (3) preventing exclusion from the labour market. Since 2012, the national **Employment Programme** (EP, drawn up every two years) specifies the content and volume of ALMP by defining available labour market measures and identifying target groups within the contours of the national law. The national **Development Plan** of the EUIF (DP), drawn up every three to four years, sets out the PES's operative strategy and defines national activities, targets, and key performance indicators. The PES 'owns' the performance management system and defines the rules of how to select targets and performance indicators autonomously, albeit within the framework specified by the Labour Market Services and Benefits Act.

The objectives outlined in the EP and DP then inform the **Annual Action Plan (AAP)** for the national PES and the 15 regional annual performance plans. The national AAP specifies three areas of performance management – impact, output and quality – to which a series of performance indicators are attached. There are eight so-called '**impact**' indicators, 14 '**output**' indicators and five '**quality**' indicators. Impact indicators are weighted 50%, while output and quality are weighted 25% each. Inside the group, all indicators have the same weight. During the first years of the newly operating PES, an additional 'activity'

indicator was used (weighted 10%) which captured various activities and milestones in the development of the new structures and processes. When the activity indicator was dropped, the weight of output indicators increased from 40 to 50%. When the system was revised, the number of indicators was also reduced as various ALMP were grouped together. The grouping of indicators led not only to a reduction (which made the system clearer and more comprehensible) but also increased local flexibility as regional offices could choose from a variety of measures in order to reach the associated target.

Each of the 27 indicators is **quantified** and data is aggregated at national level. **Impact indicators** focus on various measures of the 'rate of entrances to employment' (at different stages of unemployment or after certain types of interventions) while **output indicators** monitor the flow of clients in activation programmes, education or training and vacancies. Finally, a series of **quality indicators** measure e.g. customer satisfaction levels, claim-processing speed, or the issuance of individual action plans.⁷

C Strong regions and open review dialogues for targets and indicators in a small PES

The Employment Programme defines the overall strategy of the Estonian PES as well as the budget for ALMP. Based on the strategic goals and available resources, the Management Board proposes the target levels for the nation as a whole. After the annual action plan is agreed upon at the national level, the regional PES offices draw up their **regional action plans**, in which they outline what their contributions to the national targets are and resources are distributed accordingly.

Since the regional PES offices do not have their own data sources or statistical capacity to calculate their own target levels, they receive target level corridors from the headquarters which form the basis of discussions/negotiations. In theory, regional PES could suggest a reduction of the suggested target levels. However, in practice this hardly ever happens as target levels are the result of ongoing, bottom-up processes which have already informed the Management Board's decision

⁷ When using the 'standard' definition of terms as suggested by Alex Nunn (European Commission (Author: Alexander Nunn), 2012), the Estonian impact indicators would be considered outcome targets, while the output indicators would be considered input targets.

about target levels. This is, however, a more recent development. When the system was introduced in 2009, the process was mainly driven by top-down decisions. Over time, the **regional PES** developed the expertise and experience necessary to make more **autonomous** decisions which led to an increase in bottom-up process and input.

The regional action plans are more detailed than the headquarters' AAP and include additional indicators taking account of regional particularities or strategic focal points. Setting regional targets is a process informed by past performance, (local) labour market forecasts, the EP and DP, and strategic aims for the upcoming year. The process is closely connected to reviewing and, if needed, adapting the existing set of indicators (some indicators are only captured at the aggregate level, others can be broken down to the regional level), and are defined in relation to the availability of ALMP and other activation measures offered by the department. **Adjustments** to target levels can also be carried out during the year if the Supervisory Board approves such changes. As it is not always clear how a labour market develops, the centre retains parts of the budget. Generally speaking, there is a '**target culture**' in Estonia that does not necessarily expect all targets to be met in all PES offices. However, the PES and/or staff need to be able to offer an explanation where targets are not met.

The adequacy of the system is **annually reviewed** by the Management and Supervisory boards. Input is officially also solicited from various ministries as well as the regional PES managers. However, besides these official procedures, informal input is possible throughout the year from the PES employees themselves, partly as part of the regular reporting cycles and partly solicited through 'PES visits' by the headquarters. Generally speaking, inclusive and open communication is highly valued in the Estonian PES – and is feasible given its small size.

When a new indicator is introduced, it first runs 'in the background' for one year i.e., it is visible in the Data Warehouse but does not affect the performance scores of the regional PES (see below). The concerns and questions of staff are also addressed by the headquarters during the annual PES office visits.

D Ownership, transparency of information and frequency of dialogues

The Estonian PES operates on the basis of three principles, namely **manageability** (i.e., the possibility and the capacity that target levels can be affected by PES decisions and staff behaviour), **transparency** (which comprises both simplicity and access to information), and **ownership** (staff accept and owns the system). In order to enhance transparency, the Estonian PES has developed a **Data Warehouse** which also assists regional PES in their daily operations. Likewise, in order to enhance ownership, the Estonian PES prioritises and engages in frequent dialogues with local management and staff.

Over time, the PES has developed several procedures and instruments to run the performance management system effectively and efficiently. The most important features include:

Comparing performance

Given its small size, the Estonian PES does not rely on clustering techniques. Instead, regional PES are compared via their **performance scores** on the various groups of indicators and other descriptive statistics. The performance of regional PES is mainly assessed by comparing past and present performance, while a ranking of the PES offices only occurs once a year. During the regular performance dialogues (see below) the benchmarking activities are mainly held with the aim of detecting problem areas or identifying high performers/good practices. Placement officers can follow their performance at any time in the Data Warehouse. The regional PES managers, in turn, have access to the performance of all of their employees.

Measuring and rewarding performance

Performance of PES offices is calculated **on** the basis of a **weighted index** of the indicators and represented by a value on a scale from 0 to 10. Monitoring meetings between PES managers and their staff take place on a **monthly** basis. During the manager-to-manager meetings, performance is discussed, feedback provided on indicators, target levels and the performance scoring system, and best practices identified. Performance on impact and most quality indicators are measured and discussed **twice a year**. Satisfaction indicators (for jobseekers and employers) are assessed on an **annual basis**. In addition to manager-staff meet-

ings, the managers also meet with their peers and the Management Board on a monthly basis, while representatives of the national HQ visit all regional PES in June/July to discuss performance or explain new developments.

High performance leads to **pay-related bonuses** twice a year which are calculated by combining individual performance scores and the performance of the entire unit and organisation. Besides financial rewards, the PES rewards high performance through employee of the month and annual awards to individual staff or teams.

4.4 Keeping an eye out for recent reforms in three other PES

Workshop discussions and further research highlight three PES where current developments may merit further investigation in the near future: Spain, Ireland and Finland.

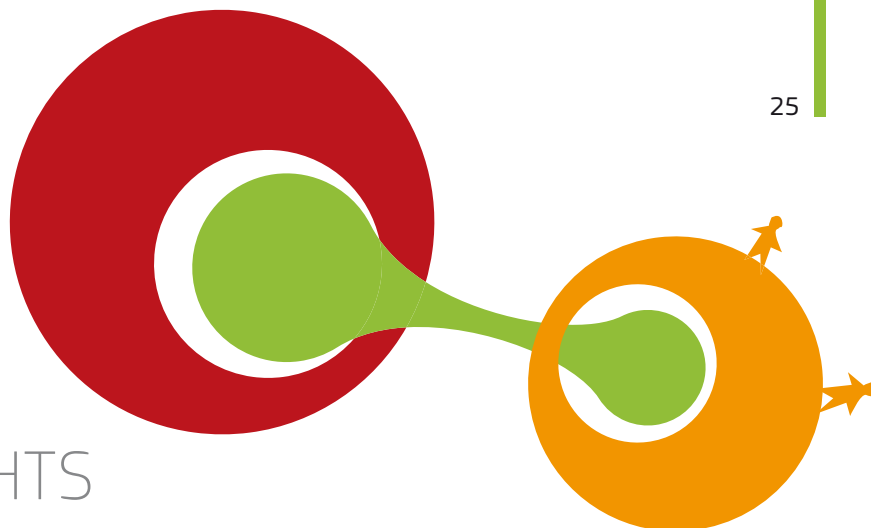
- **Spain** is an interesting case as an MbO system was first introduced in 2012/13 and is due to be renewed for another four-year period. How the system is evaluated and what changes are deemed necessary to continue will soon be discussed in the PES and concrete evidence should become available in the course of 2016.

- **Ireland** is similarly interesting given its major overhaul of the entire PES, leading to a newly calibrated MbO system. What changes are being introduced and why, will crystallise in the months/years to come.
- Finally, **Finland**, a country with a very long history of MbO – in fact being one of the first-movers – has reformed its system due to internal concerns about (the high number of) targets and indicators. This reform process is currently approaching completion and its effects should become clearer in the near future.

It remains to be seen if the reforms lead to the anticipated results, or whether unintended consequences will result from them? However, it is too early today to draw concrete illustrations from these three PES.

We recommend investigating the impact of these reforms over a two-year horizon as recently proposed in a European Commission paper on the Spanish Strategy for Employment Activation 2014.⁸

⁸ European Commission (2015): Peer Review on 'Strategies for Employment Policy reform. Implementation challenges in decentralised countries', Madrid (Spain), 5-6 October 2015. Host Country Paper.



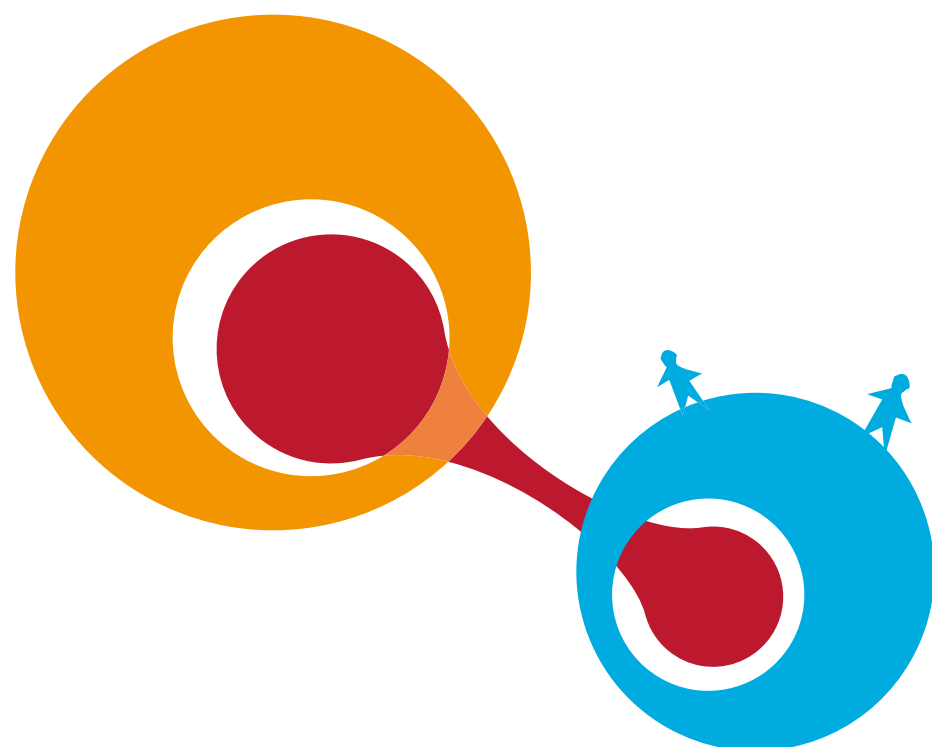
5. HIGHLIGHTS

PES vary significantly in their governance structures, responsibilities and legal statutes. Accordingly, there is no one-size-fits-all solution to designing performance management systems as these need to be sensitive to political contexts, legal requirements and existing governance. Nevertheless, the recent Thematic Review Workshop and the review for this analytical paper revealed a series of issues that can inform any PES performance management system, both when setting up a new system and when fine-tuning existing ones.

- **Simplicity** – ‘less is more’ when it comes to targets. A higher number of complex targets undermine the systems effectiveness as (frontline) staff may fail to comprehend the objectives or the logic behind the targets.
- **Stability** – stability in political objectives is key in allowing PES to make strategic plans and to channel resources in a sustainable way.
- **PES strategy is more than MbO** – PES do not plan their entire operative strategies with the MbO system in mind. In other words, there needs to be enough room at local levels to introduce measures that may not, or only tangentially, affect target levels; accordingly the entire budget should not be planned with numeric targets as the only point of reference.
- **Data** – PES can only manage what they can measure. Hence, high-quality data that is valid, trusted and informative is a prerequisite to an effective performance management system. At the same time, utilising data requires highly trained staff including statisticians and economists.
- **Quality concerns** – even though most PES do not include outcome targets that are sensitive to the quality of services, there is an increased awareness that the effects of interventions on individuals can and should be monitored and evaluated. The use of other public administration data such as tax registers or social insurance data offers possibilities to track duration of employment, upward mobility, or level of pay.
- **Fairness** – staff need to feel that a system is fair, which is based on transparency, communication and involvement, as well as a belief that targets are realistic and that actions can impact results.
- **Transparency** – in order to build trust and commitment, both access to data and the way in which data is interpreted and performance calculated needs to be transparent and understandable to all staff.
- **Communication** – in order to build ownership, sub-national PES managers as well as frontline staff need to both understand the logic behind strategic and operative decisions and have a way to provide feedback about the system and associated processes. Only when staff feel involved, appreciated and valuable can a system create ownership and commitment. Office visits, joint workshops and online-tools are important elements in allowing for the exchange of good practices and bringing concerns to the attention of decision makers.
- **Acceptance of ‘failure’ to achieve all targets** – if all target levels are reached by all PES offices/officers at all times, observers might argue that targets are not ambitious enough. Likewise, however, an MbO system needs to allow for the possibility that target levels are missed, if and when there is a good reason for this. By allowing for some performance shortfall against individual target expectations, stretching targets can be introduced without staff disillusionment and frustration developing and greater commitment and ownership can be built.
- **Independent evaluations** – regular and independent reviews of the performance management system and labour market interventions are necessary to assure that articulated goals and actual effects coincide.
- **Encourage team spirit** – designing MbO systems could in theory lead to a lack of co-operation, unhealthy competitive relations among staff or between regions

as benchmarking leads to ranking and possibly financial rewards. Hence, MbO systems need to build in features that prevent unproductive competition and reward cooperation.

- **Incentives** – staff need to be appreciated and respected. While financial incentives are one possible way to reward high performance, non-financial incentives such as verbal recognition by management, formal awards or career opportunities are equally necessary and effective.





ANNEX

BENCHMARKING INDICATORS:

A The quantitative indicators for the areas listed in points (a) (i) to (iv) of Article 4(1):

1. **Contribution to reducing unemployment for all age groups and for vulnerable groups:**
 - a. Transition from unemployment into employment per age group, gender and qualification level, as a share of the stock of registered unemployed persons.
 - b. Number of people leaving the PES unemployment records, as a share of registered unemployed persons.
2. **Contribution to reducing the duration of unemployment and reducing inactivity, so as to address long-term and structural unemployment, as well as social exclusion:**
 - a. Transition into employment within, for example, 6 and 12 months of unemployment per age group, gender and qualification level, as a share of all PES register transitions into employment.
 - b. Entries into a PES register of previously inactive persons, as a share of all entries into that PES register per age group and gender.
3. **Filling of vacancies (including through voluntary labour mobility):**
 - a. Job vacancies filled.
 - b. Answers to Eurostat's Labour Force Survey on the contribution of PES to the finding of the respondent's current job.
4. **Customer satisfaction with PES services:**
 - a. Overall satisfaction of jobseekers.
 - b. Overall satisfaction of employers.

B Areas of benchmarking through qualitative internal and external assessment of performance enablers for the areas listed in points (a)(i) to (iv) of Article 4(1):

1. Strategic performance management.
2. Design of operational processes such as effective channelling and profiling of jobseekers and tailored use of active labour market instruments.
3. Sustainable activation and management of transitions.
4. Relations to employers.
5. Evidence-based design and implementation of PES services.
6. Effective management of partnerships with stakeholders.
7. Allocation of PES resources.

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