

THE STATE OF PERFORMANCE MANAGEMENT - ON THE BASIS OF AUDIT OBSERVATIONS MADE BY THE NATIONAL AUDIT OFFICE IN 2002-2006

In the early 1990s the management system used in Finland's state administration was significantly reformed. The shift was made to a performance management approach mainly through amendments to budget legislation. The goal was to improve efficiency and actors' possibilities to achieve the desired outcomes by giving agencies and enterprises more operational freedom. Another goal was to increase accountability, which requires actors to report on the achievement of targets. The reform was designed to decentralize decision-making in the allocation of resources.

When the reform was implemented, key attention was focused on performance management of agencies and enterprises. Performance management by ministries in relation to subordinate administration was clearly viewed as a critical success factor. The main focus was on setting targets. In the subsequent reform of performance management in the present decade, attention was shifted more towards describing results to Parliament and accountability. A new set of concepts regarding targets was also introduced. Although these concepts are already being applied in target setting, the comprehensive effects of the reform on the functioning of performance management will only become clear in the coming years.

This audit of the state of performance management is based entirely on audit observations that were made by the National Audit Office in 2002-2006.

One point of departure in the audits that have been conducted by the National Audit Office is existing legislation and norms as well as gaps in compliance with these. Irregularities are pointed out in audit observations, so the picture they give can easily be a negative one. Over 90% of audit observations in performance audit were

critical or negative with regard to requirements concerning the functioning of performance management. Financial audit observations are summaries of the prevailing state of affairs.

Throughout the period in which the performance management system has been applied, the audits conducted by the National Audit Office have paid considerable attention to matters regarding the functioning of the performance management system. The audits conducted by the National Audit Office have mainly focused on individual administrative sectors or agencies, however. The aim of audits has not been to form a broader overall picture or to monitor the performance management reform in itself. Partly for this reason any picture of the state of performance management that is based on audit observations cannot be comprehensive or coherent enough to give a reliable picture of the state of performance management in the state administration as a whole.

Observations almost entirely apply to documents. Observations regarding the state of performance management in relation to managers and other personnel are practically nonexistent. For this reason as well, an essential part of the picture of the state of performance management is missing.

The picture of the state of performance management that is obtained on the basis of audit observations alone is quite negative. Key information concerning audit observations regarding the functioning of the performance management system is summarized in the following paragraphs.

In addition to performance management, resource and normative steering are still used extensively in state administration. The organization of administration according to the performance management approach has not taken place. It appears that actors' freedom to achieve results has not increased very significantly. On the other hand actors' degree of success in verifying the bearing of responsibility would not appear to justify the granting of greater freedom.

It is also unclear what consequences achieving or failing to achieve targets have for an organization. The significance of incentives is small. The steering provided by ministries, which are in a decisive position in this regard, is poor.

The mechanism for setting targets is unclear. Productivity and economy are not guided and managed with the help of performance

targets or using the performance management system. The performance management of transferred funds is minimal.

Targets have significant shortcomings. They do not form a logical hierarchy. Targets and resources are not linked to each other. Targets are not measurable. Particularly policy effectiveness targets have not been connected to time series. Targets are not real and challenging.

With regard to targets concerning operational efficiency, the situation is still inadequate. Real and suitable productivity and economy targets are often practically nonexistent. Their lack or difficulty in presenting them is not explained in performance management documents. Instead reports have presented agencies' income and expense information, the accumulation of person-years and cost information for different units.

The state of accounting is quite poor. There are problems especially in allocating work costs. Monitoring systems for operational outputs are lacking or have significant shortcomings. It appears that those who have management responsibility do not believe they need the information produced by accounting to the extent that proper performance management would necessarily require.

Actors are not able to separate the impacts of their own activities in the complex field of causes and effects. Descriptions of effectiveness dwell on surveying activities. The accountable parties have seldom set economy targets for activities or produced true and fair information on operations. Furthermore, no significant improvement took place in setting targets or reporting results between 2002 and 2006. The evaluation of activities does not have an adequate position as the basis for describing performance. A small number of audit observations gave a clearly more positive picture of some of these matters.

On the basis of audit observations the state of performance management on the whole can be regarded as fair at best.

The shift to the performance management system has been a significant development step to ensure the efficient and proper use of resources. The public setting of targets and reporting on their achievement have brought a significant change in the transparency of administration. Generally speaking Finland's budget management is on a good level by international standards. The application of

performance management to state administration involves many difficult matters. In some respects the management model is poorly suited to state administration. On the basis of audit observations the management system used in state administration nevertheless functions quite well.

The evaluation of the state of performance management on the basis of audit observations is that the management system needs to be developed further. From the viewpoint of the functioning of performance management it is essential to get organizations, management and personnel motivated with regard to performance management. Those responsible for developing administration should strive to act so that these have a positive need to display results in an accountable way.

The performance management model should be adapted as well as possible to meet the needs of different types of activities, which are funded in different ways. Ministries should go over activities with agencies and enterprises so that they can reach a coherent, justified and documented view of how targets should be set for performance as a whole, considering different aspects of performance, and what information should be presented to give a true and fair picture of performance.

The development of the most important basic factor in the performance management system, accounting, should be improved. For this purpose those who are responsible for developing administration should start a project in which they also make use of outside expertise and take advantage of international input as well.

It is necessary to create a clear procedure for setting targets. This includes how activities are scheduled and how objectives are dealt with from the top down and from the bottom up in each case. This is very important so that upper-level targets can be properly linked to targets throughout administration.

To verify policy effectiveness it is vital to develop evaluation work in the coming years and make it a key part of setting targets and describing results.