PES to PES Dialogue

The European Commission Mutual Learning Programme for Public Employment Services

DG Employment, Social Affairs and Inclusion

Performance management in Public Employment Services: benchmarking, clustering and individual performance management

Study visit to the Arbeitsmarktservice Österreich (PES Austria)

18 September 2013

(Follow up to Peer Review: Performance Management in PES,

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1.   Introduction

Following a Peer Review on 'Performance Management in PES' in Copenhagen on 21-22 March 2013, several Public Employment Services (PES) expressed an interest in learning more about clustering and individual performance management in practice. The Austrian PES, the Arbeitmarktservice Österreich (AMS), is one of those in Europe where the use of clustering in performance management is the most developed. The federal level of labour market authorities in Switzerland, the Staatssekretariat für Wirtschaft (SECO), has recently developed a tool for individual-level benchmarking of counsellors' performance. Furthermore, the SECO worked out an econometric method of taking external factors into account in benchmarking.

The follow up study visit focused on the experience of the two PES with the use of clustering and individual performance management. In addition to Austrian and Swiss participants, PES representatives from Bulgaria, Estonia, Belgium Flanders, Spain and Hungary attended the event.

2. What are the preconditions of performance management?

2.1 Political commitment and PES autonomy

There are several exogenous preconditions for implementing performance management systems successfully in PES. First of all, a high level of political commitment is helpful to avoid political cycles in employment policy. Political pressure on PES may vary from 'showing off good results very quickly to gain votes' to 'budget has to be cut in order to improve deficit', and both may be harmful to the performance of PES. A high degree of **organisational separation between PES and political control can help to avoid such pressure**.

In Switzerland, for example, the PES budget is independent from the government, it comes from the Unemployment Fund, and the size of the budget is automatically set by actual labour market conditions (number of jobseekers per year). Similarly, **labour market goals have to be clear, transparent and stable** over the long run. A well-organised, systematic planning-evaluation practice can be a tool to **avoid over-steering and politics taking influence too often. Higher level decentralisation** with acceptance of **local differences in implementation** also contributes to less political control.

2.2 Stable legal framework and technical background, good quality data

The legal basis of employment policy in general and PES in particular has to be **stable** for successful performance management. Financing of PES has to be transparent and accountable. Measures of performance (i.e. indicators, priorities, ways of measuring performance) have to be clearly defined in contracts, which should be **accepted and supported** by all PES levels and other parties involved.

Certain technical elements, including the **availability and quality of data**, are also necessary preconditions for performance management. Austria and Switzerland use a highly developed information system and online data warehouse for performance management. In addition to that, integrated tax, benefit and PES intervention databases would allow the systematic collection of performance data related to the relative effectiveness of various labour market programmes and interventions. Such systems may however be complex and costly to implement. It should be considered by all PES whether the development of such an integrated system is feasible and cost effective. However, the performance management benefits that might emerge from this are considerable.

2.3 Human resources

Several PES, including the Swiss, Austrian and Belgian, mentioned during the discussions that it was quite **challenging to attract high quality staff** to PES local offices, especially those with good managerial skills. Many PES employees are public employees and their employment contracts are centrally regulated in both Switzerland and Austria. Therefore, employment conditions may be rigid in terms of wages and laying-off, which makes it difficult to hire the best employees.

3. How can PES structure support performance management?

3.1 Centralised decision making combined with local autonomy in implementation

The institutional structure of PES is similar in Austria and Switzerland: centralised decision-making and target-setting is combined with local autonomy in implementation. In Austria, the PES consists of a federal, a regional and a local level. Annual labour market policy targets are set in a coordination process involving the Federal Ministry of Labour, Social Affairs and Consumer Protection, the social partners and the federal organisation and provincial organisations of AMS, and are then finally approved for the coming year by the Administrative Board, which is the highest tripartite decision-making body of the AMS. Based on these pre-set annual labour market goals, the federal PES is responsible for deciding about labour market policy priorities, laying down regulations, distribution of financial resources and management control. The regional authority is in control of the implementation of regional labour market policy, while operational execution, with room for manoeuvre, belongs to the duties of local offices. As only general targets are given by the federal level, **regional and local authorities have significant levels of freedom in the actual design of active labour market measures**.

The Swiss PES has a structure with three political levels: federal, state (canton), regional (local). **Local autonomy plays a big role** in Switzerland. Cantons have a high degree of freedom of action, which they can delegate to the regional offices. Given the federal structure of Switzerland, public employment services are ruled according to the New Public Management-Approach, i.e. the principle of "management by objectives". The **federal level** (SECO) **sets the goals for** the **cantonal level**, and cantons determine how these goals are to be achieved.

3.2 Local autonomy induces responsibility and awakens ownership

This institutional structure has several advantages. Centralised goal-setting makes sure targets are ambitious, target-setting process is not too long and complicated, is transparent and kept from local political interests. Local freedom in implementation induces responsibility and awakens ownership; furthermore, local authorities can choose more efficiently which labour market policy tools to use as they have **more knowledge about the problems of their local labour market**.

4. How to build a succesful performance management system?

4.1 Regular feedback and financial incentives

Two core performance management instruments are used by the Austrian PES: **yearly labour market policy targets** and a **Balance Scorecard-based** (BSC) benchmarking system. The backbone of the BSC is systematic benchmarking of performance: management assessment is undertaken every 3 years. All centrally specified internal rules (e.g. on wage subsidies, internal communications etc) undergo a quality assurance process every 1-3 years, which includes **feedback loops** with regional organisations. This has proved a good instrument to assess what does and does not work. There is also an internal audit programme for cases when something is done efficiently and effectively, or repeatedly fails to meet expectations.

4.2 Target-based budgeting and achievement-based bonuses contribute to high achievement of PES

In Austria, yearly labour market policy targets include 8-10 quantitative indicators set separately for every regional office. Targets are connected to the distribution of the budget for active labour market policy tools: **the more ambitious the target, the bigger the budget a regional office receives**. Thus, regional offices are incentivised to accept as high targets as possible during the multi-partite target setting process.

Yearly labour market policy targets and benchmarking (BSC) are closely connected. **The extent to which pre-set targets are reached is part of the benchmarking indicators**. For example, a possible benchmark indicator of an office can be what percentage of a specific yearly target was reached. Also, the office-level bonus base depends on achievements measured by benchmarking indicators. It is not only regional offices which are incentivised financially to achieve high targets, local PES offices are also motivated to reach them.

4.3 Targeting as a tool for continuous development of PES

The process of setting targets for local units in Austria helps contribute to the continuous improvement of PES performance. For example, in the case of some benchmarking indicators, a **target for units with below-average results may be to reach the average**. However, **once they improve, the average goes up as well, helping to promote continuous improvement of achievements**.

4.4 What do good indicators look like?

The Swiss PES uses a similar system of performance management as the AMS, including yearly labour market targets and a benchmarking system. However, because of the high degree of freedom Swiss cantons enjoy in their execution, cantons are free to use any quality management systems. Furthermore, SECO provides cantons with a certain number of benchmarking indicators based on the BSC approach.

In comparison to the 8-10 yearly targets of Austria, Switzerland uses only four labour market targets, and all of them are based on unemployment-related data exclusively. SECO does not measure outflow to employment for two reasons. Firstly, it can be manipulated by PES staff easily if the information about finding a job comes from the client, and secondly, because using administrative data (i.e. linking PES data to tax or contributions data) is seen as controversial at the moment because of strict data protection regulations; although this view is changing. The four indicators are then aggregated to one global target measure. Target values cover only those on unemployment benefit, and they measure the speed of reintegration and the prevention of long term unemployment, re-registration, and the exhaustion of benefits.

In practice, it is highly arguable what good target or benchmarking indicators consist of. Based on the experiences of SECO, **good targets are outcome-oriented** and **well-accepted,** measurable by **good quality data** and **available at short notice**; they have a **clear message**, are **easy to interpret** and **cannot be manipulated**. The **number of indicators should be kept low**. However, there is a trade-off between available indicators, all can have their pros and cons. Also, due to the fact that the recent targeting regime covers only those on benefit, several outcomes of PES cannot be measured (prevention of registration, or outcomes of those not eligible for benefit).

In addition, it is very important that the outcomes from an indicator **can be influenced by PES**. For example, an employment counsellor is able to influence whether or not an unemployed client finds employment; however, it may be more difficult to argue that he/she can also affect how long his/her client will actually stay in that job.

5. How to take local external factors into account during benchmarking?

A prerequisite to designing efficient incentives for performance improvement is the **accurate measurement of performance**, and most importantly the **correction for regional (local) external factors**, such as labour demand and the composition of job seekers. There needs to be widespread **agreement about the indicators used to correct for such local factors** to avoid benchmarking results being called into question.

The AMS has a classic clustering procedure, in which local PES offices are grouped into 6 clusters based on their observable characteristics, and achievements are safely comparable within clusters. The Swiss method, on the other hand, is to estimate statistical regional benchmarks by cantons, and instead of country-level averages, use the estimated benchmark as a base of comparison.

5.1 Achievements of local units are comparable within clusters

The clustering methodology of the AMS was developed by the Austrian statistical office, Statistics Austria. It aimed to find groups of districts (i.e. clusters) which had similar structural properties which affected the performance of the different regional bureaus (RBs) of the AMS, but which were not themselves affected by the performance of the RBs.

The procedure consists of two steps. In the first step, factors affecting local level unemployment rate were identified using econometric analysis. The 2013 update of the AMS Clustering Project found that the following six district-level exogenous factors influenced significantly local labour market outcomes:

1. relative share of working age population born in other EU-15 countries;
2. relative unemployment rate compared to the maximum;
3. share of part-time workers;
4. activity rate;
5. gender wage gap; and
6. median income.

Then, based on these six factors, a clustering analysis was conducted in two steps. In this procedure all districts are assigned to a group in a way that minimizes the variance of the six factor variables within each group. The first step set the number of clusters using the Ward method. After the number of clusters had been identified, actual clustering was conducted using the k-means method. In this process each district is assigned to the cluster in which the means (i.e., averages) of the six factor variables are the closest to theirs. Thus, all districts are put to the cluster to which they are the most similar. The name of the procedure, "k-means" refers to the fact that the number of clusters, "k", has to be set in advance.

In the clustering method of the AMS, two clusters, a "city area" for the biggest cities, and a "tourism area" for districts with a high share of tourism in their economy were set ahead "manually", based simply on pure reasoning, so the system consists of 8 clusters in total. However, two of these 8 clusters are very small, so cluster-level data is usually published for 6 clusters only, and the indicators of the two small clusters are split among the 6 bigger ones.

5.2   Comparing local achievements to local benchmarks

The method of the Swiss PES is quite similar, and it also **enables comparison between cantons and between regional placement offices** by setting the influence of regional features on labour market outcomes. As a first step, multivariate econometrics models are estimated to identify the effects of the exogenous factors on each of the above mentioned four labour market target variables. The factors which affect canton-level target variables are similar to those in the Austrian model:

1. labour market situation (ratio of new jobseekers);
2. share of jobseekers from seasonal industries, like tourism and construction;
3. share of Swiss jobseekers;
4. share of frontier workers (i.e., those living abroad but working in Switzerland); and,
5. size of the agglomeration.

In the second step, instead of the country average of the target variable in question, **local benchmarks are estimated** using the estimated values of the dependent variables from the empirical models. Thus, **cantonal benchmarks are set based on how "far" their characteristics are from the country average**. For example, in a canton with lower-than-average labour market conditions estimated benchmarks are lower. Benchmarks are re-estimated and published every year. A drawback of the method is that its robustness is highly dependent on size: **in the case of small regions or small regional offices estimated benchmarks may change drastically from one year to the next**.

5.3   Implementation of ready-to-use methods

The Swiss PES also uses a similar, although not as developed and systematic, clustering system to Austria, but this is used for exchanging information and good practice among local PES and not for benchmarking purposes. The methodology of the Swiss clustering system is very similar to the Austrian one including the same three steps (1. econometric analysis to identify significant exogenous factors; 2. setting the number of clusters by Ward-method; 3. assigning local units to clusters using k-means method). The procedure is based on the German clustering practice. Some other countries, e.g. Hungary and Belgium Flanders, are also either about to start or have already started to construct their own clustering systems implementing the methods applied first by the German PES. By now, in addition to the German clustering methodology, there are two more good examples to follow, those of the Austrian and Swiss PES.

However, as the Swiss example suggests, clustering is not the only instrument to use to control for exogenous factors: local-level benchmarks can also be estimated. In fact, the Austrian PES expressed that they are open to go in this direction in the future, as it may be a more modern version of the old clustering system.

6. How to enhance individual performance of PES staff?

6.1 Easy access to performance measures improves understanding and commitment

Both PES use a well-developed online data warehouse to support performance management. The goal of these systems is to offer clear, transparent, easily available information to PES staff about targets, benchmarks, results and achievements. In the online data warehouse of the AMS all indicators, both yearly labour market targets and BSC indicators are available up to local branch level, as well as in regional- and cluster-groups. Indicator values are given both in natural terms and as percentages of reference values as well. Reference values (benchmarks) are usually set as the second best achievements within the cluster the year before. Information is available by indicators and by local units as well.

In the Swiss PES the two relatively independent bodies (the Regional Employment Centres (RECs) which counsel jobseekers and the funds, which are responsible for the assessment of eligibility and the financial support of jobseekers) have two separate IT systems. The data from these two systems are merged into one data warehouse and processed in order to be published as standardised reports on an online tool. This online tool is available for the staff of the supervisory and executive bodies. Individual cantons are responsible for deciding whether a wider group of staff is authorised to access the online database. In addition to this, annual benchmarking results are also available in the database. In Austria's case, benchmarks are set based on last year's performance.

The Swiss RECs also have reports of performance at the level of individual employment counsellors. These so-called "Interpretationshilfen" are centrally produced, and contain the achievements of REC's counsellors and indicators on the socio-demographic characteristics of the jobseekers that the individual counsellors are dealing with. They include individual values of the already mentioned 4 target indicators compared to the Swiss/canton/office average, number of clients, number of interviews, number of clients with no activity, ALMP statistics and sanctions of clients, etc. These reports are distributed to the counsellor and his/her direct supervisor only, but not to the Head of the REC. Their main purpose is to help counsellors in personal development; they are not connected to financial incentives and they are not intended to increase competition among counsellors. According to the philosophy of the Swiss PES, some competition is necessary but only up to the point where people are still ready to cooperate. The reports are completed twice a year, and they are anonymous in the sense that they do not contain names, only ID numbers.

The results of the **"Interpretationshilfen"** have to be interpreted carefully. Individual achievements cannot be compared even to office averages without taking into consideration the pool of clients a counsellor works with. If a counsellor systematically deals with more difficult cases, his/her results will be lower even if his/her individual performance is phenomenal. **Supervisors need to be aware of the specialities of counsellors when evaluating results**.

There is no similar individual performance management tool used in the Austrian PES at the moment. However, following the Peer Review in Copenhagen, the AMS

has started to examine the possibility and methods of introducing a similar instrument based on the Swiss example.

6.2 Result-based decentralised individual performance management is more efficient

Individual performance management models may differ in the Swiss PES by cantons: more centralised and decentralised models exist. In centralised models performance management processes and tools are defined, and hiring decisions are made on cantonal level. In more decentralised models such responsibilities belong to regional employment office managers. According to empirical evidence, **decentralised models clearly perform better than centralised ones**. The best individual performance models **focus on results**, give **responsibility to every actor**, contribute to a **sound competition** within teams but still **maintain a good working climate**, and focus on result-oriented counselling rather than complying with cantonal rules.

6.3 Generating and using evidence on what works

One of the most important **challenges of performance management** is to **find causal relationships between different approaches in counselling** and activating jobseekers **and their reintegration** into the labour market. At the moment there is not enough evidence on what measures really work in order to improve goal achievement, but more and more evaluation results are getting published. For example, quantitative research of the Swiss PES shows that a **counselling strategy that concentrates on improving job-finding skills of clients is more successful than a scheme focusing on attracting employers and identifying vacancies**.

Also, **counsellors working with special clients may need "non-traditional" skills and knowledge** as well. Rather extreme forms of job search may be needed for finding a job in certain industries, and counsellors have to be aware of those. For example, for a counsellor working with jobseekers looking for a job in construction a more fruitful strategy could be to send clients to hang out with construction workers in pubs and get direct information about vacancies, than to wait for employers coming to local PES office.

7. What are the key institutional and personnel requirements for successful performance management in PES?

As a conclusion, the most important things mentioned during the study visit as requirements for successful performance management in PES include the importance of **publishing results** and information about achievements (both BSC and targets), **transparency**, and **protection from political pressure**.

The **reputation** of the national PES is also important. If it is acknowledged by both the public and the private sector as a modern, efficient, valuable institution, it is easier to attract talented people to the staff, to set and reach goals, to be more independent from temporary political games, etc.

The AMS underlined that it is **methods, as well as results, that need to be transparent**. Furthermore, there needs to be a **public discussion** about establishing, analysing, and **developing quantitative methods** used by PES, e.g. clustering. It creates a **professional image of PES** if even small details are permanently re-examined and errors are corrected.

7.1 The role of the office manager is vital

There is a wide discussion about the institution and the work of counsellors in the Austrian and Swiss PES, but the role of office managers is not emphasised enough. However, there is plenty of evidence that change of managers can quickly and radically change unit achievements (both for better or worse). Although counsellor-level individual performance management systems are developed, there are no available strategies on training and incentives for managers in these two countries. Many PES find it difficult to recruit skilled managers willing to work in PES offices, however the Swiss PES has found that working as a manager in local offices is starting to become more attractive. This is partly because of the reputation effect of working for a successful institution, and partly because of the intellectually inspiring nature of the job: targets and potential tools are given, but execution can be chosen freely.

7.2 Guarantee data quality

Problems with the quality of data are a relevant matter of concern in the case of all PES. In particular, data collected directly by PES relies heavily on the daily work of counsellors. At the same time, linking administrative data from external sources (i.e, tax authorities) to PES databases, while extremely useful, has not been feasible in all countries to date for several reasons (e.g. in Switzerland, because of data protection issues). Relevant information needs to be monitored continuously for conducting performance management in PES: benchmarking, targeting, clustering and impact evaluation of ALMPs or counsellors' practice requires huge amount of data from several sources.

7.3 Management by outcome on all levels of the system

The Austrian and Swiss PES both have decentralised systems with strong local autonomy and very different regional procedures. It is obvious that no one-size-fits-all solutions are expected to be found, and every tool and method has to be re-calibrated according to the original structure of the national PES.[1] However, one key message of the good practice of the Swiss and the Austrian PES is that **management by outcome on all levels of the system is necessary in order to improve the performance of PES.**

7.4 Performance of PES may depend on ad-hoc factors

Measured and real achievements of PES may depend on other factors besides data quality and performance management systems. As was mentioned earlier, Swiss target indicators cover only those on unemployment benefit, most probably showing more favourable results than if the long-term unemployed who are not entitled to benefit had also been included. In Austria, on the other hand, those on social benefits were integrated to the pool of unemployed, therefore efficiency of instruments along with the value of outcome measures went down. It may also be the case that successful PES performance causes outcome indicators to drop. For example, if local offices manage to engage with more people with less labour market prospects who are not currently registered with them, although they may be considered as more successful, efficiency indicators may go down because it will take a longer time to place these individuals.

Another example of changes in performance results due to ad-hoc factors is Belgium Flanders, where in order to reach the ambitious employment rate target[2], local offices are pressed to ensure that all unemployed enter the unemployment registry. However, even though the number of clients goes up, the number of counsellors and the size of PES budget does not – causing an efficiency loss in public employment services.

Other ad-hoc events, like the closure of a big factory, may also affect PES performance. However, although performance management systems usually do not have the capacity to explicitly handle these unexpected shocks, they still have to be taken into consideration when interpreting the achievements of local units.

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[1] For example Spain is decentralised in 17 Autonomous Communities, and each one is competent to develop its own ALMP programs within the national guidelines established by the national PES. For this reason, a new national framework based on management by performance has been developed. The Annual Employment Policy Plan 2013 (http://www.sepe.es/contenido/empleo_formacion/formacion/formacion_para_el_empleo/plan_anual_politica_activa.html) has implemented an evaluation framework based on the outcomes of a set of 22 indicators. These outcomes will be applied in the distribution among the Autonomous Communities of 40% of the national funds allocated to ALMP.

[2] 69.3% by 2020. Source: National Reform Programme, 2013.
http://ec.europa.eu/europe2020/pdf/nd/nrp2013_belgium_en.pdf