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PUBLIC EMPLOYMENT SERVICES**

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**Editor:** Susanne Kraatz, DG Employment, Social Affairs and Inclusion, Unit C3 - Skills, Mobility and Employment Services, European Commission

**Authors:** Dr. Alex Nunn, Policy Research Institute and Head of Politics and Applied Global Ethics Leeds Metropolitan University

In collaboration with ICF GHK and the Budapest Institute

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### Acronyms

ALMP	Active Labour Market Policy(ies)
EU	European Union
MBO	Management By Objectives
PES	Public Employment Service
NGO	Non-Governmental Organisation

# 1 INTRODUCTION

There is a wide variety of practice in European PES in institutional design, services provided, welfare and unemployment benefit regimes and welfare spending. Some PES are responsible only for labour market services to the unemployed, while others are also responsible for the administration of unemployment and other welfare benefits, services to employers and occupational or worker licensing.

Despite this variation, recent years have seen the increasing adoption of 'activation' as an approach to delivering labour market services and the use of performance management or Management By Objectives (MBO) as a management practice. The use of performance management has become more critical and widespread as PES resources have become more limited and there is a resulting increasing emphasis on demonstrating the impact of PES interventions as well as value for money. This report considers the variety of practice across EU Member States and makes suggestions about how all EU PES might learn from one another to strengthen their own practice, specifically in relation to labour market services to jobseekers. It incorporates a review of the research evidence on performance management in EU PES and draws out the practical implications of these approaches for the EU, policy makers, senior PES officials and employment counsellors.

## 2 PERFORMANCE MANAGEMENT AND PUBLIC EMPLOYMENT SERVICES

### 2.1 Performance indicators can measure inputs, outputs or outcomes

Nunn *et al.* (2010) developed a framework for understanding PES performance management according to the type of performance measures in place, incorporating the following:

- **Input measures** – which measure the types of inputs into employment services. They might include levels of spending, number of staff or numbers of PES offices.
- **Output measures** – which measure the types of activities undertaken, such as the number of vacancies registered, jobseeker interviews completed or referrals to third parties (e.g. training providers) undertaken. Outputs measure activities but do not measure the success of those activities in relation to, for example, the flow of jobseekers from welfare benefits into work.
- **Process measures** – which attempt to assess the quality of activities undertaken. They might include, for example, qualitative assessments of the quality of jobseeker interviews or assessments of customer satisfaction with the services they receive.
- **Intermediate outcome measures (micro-level outcome measures)** – which measure the immediate outcomes of PES activity, such as the placement of jobseekers from benefits into various types of employment or the extent to which vacancies are filled.
- **Final outcome measures (macro-level outcome measures)** – Ultimately the purpose of PES is to contribute to a better functioning labour market, with higher employment and lower unemployment. Depending on the strategic/political context, these objectives might also include better matching between labour supply and demand, higher productivity and employment sustainability (i.e. the prevention of unemployment).

### 2.2 Inputs, outputs and outcomes can be arranged in frameworks to understand causal relationships

The selection of PES performance measures is heavily determined by the influence that the PES has on the labour market. Clearly many factors outside of the control of the PES influence desired final outcomes such as employment, economic activity and economic development. As such, PES performance management tends to relate to their own influences on the labour market, expressed in the form of intermediate outcome indicators relating to their work with employers on the one hand and jobseekers on the other. This is a widely recognised strategy in public sector performance management where final outcomes are measurable (e.g. the employment rate), but suffer from considerable attribution problems (Bouckaert *et al.*, 2010: Ch4).

To this list might be added analytical/evaluative measures which attempt to interpret the relationships between the different factors and weigh costs and benefits. For example, such measures might include cost per jobseeker of all employment services, cost per job outcome or rates of transition to employment for different types of interventions. Ultimately this approach might result in measures of the net benefit of PES activity.

**Table 1: Typology of PES Performance Measures**

Input measures	Output measures	Process Quality	Intermediate Outcome measures	Final Outcome measures	Analytical measures
Spending: On staff On programmes	Vacancy registration	Assessment of interviews of plans	Transitions: From welfare into (different types of) work	Employment rate	Cost per jobseeker per job outcome
Staff hours contracted	Interviews completed	Customer satisfaction surveys	Penetration measures <sup>1</sup>	Unemployment rate	Benefit savings from interventions
Number of offices	Individual plan completion	Employer satisfaction surveys	Benefit duration	Inactivity rate	Net benefit of PES activity
Spending on compliance and processing	Referrals; -To types of training provision -To other forms of counselling/support -To medical/psychological programmes		Vacancy filling	Productivity	
	Placement into work trials		Long-term wages/employment of beneficiaries		
	Sanctions				
← Input/Process orientation			Outcome orientation →		

Source: Adapted from Nunn *et al.* (2010).

### 2.3 The social, economic, political and institutional context influences the appropriate approach to performance management

The selection and organisation of these measures will depend on the approach taken to performance management. This will be determined by a combination of factors including many that are external to the PES itself:

- **Political goals.** The nature and content of performance management will clearly depend upon the nature of the political goals set for the labour market. For example, in a context where political goals are focussed on ‘work first’ activation, PES performance management might focus purely on intermediate outcomes such as

<sup>1</sup> These measure interventions in relation to a particular group of clients (e.g. the proportion of lone parents who have been provided with childcare advice).



jobseekers' transitions from unemployment benefits into work, as well as the costs and benefits of various interventions. On the other hand, where political goals are more concerned with the quality of employment as a means of ensuring social inclusion and high levels of productivity, a different indicator/target mix would be required which focuses on the quality, skill levels or pay associated with particular types of employment transitions.

- **The degree of institutional separation from the state.** In many cases the PES operates at 'arms-length' from ministries of labour. This often then leads to two different types of performance management. First, external performance management; where targets and indicators have the role of 'steering' the PES and holding it to account for the achievement of politically informed goals. Second, internal performance management is associated with turning these political objectives into operational management objectives at a variety of organisational levels and in relation to different functional roles. While the former is more likely to include a small number of final or intermediate outcome indicators/targets, the latter will involve a larger number of input, output and process indicators, many of which will be used to inform decision making rather than for purposes of targeting. Ecorys (2012) report that in cases where the PES is more connected to the state it is less likely to have social partner input (as in the *UK*) and where it is more autonomous the PES tends to have more input from social partners (as in *Germany*).
- **The degree of centralisation/decentralisation/federalisation.** This has both political and managerial aspects. For example, it is possible for centralised political systems to be combined with decentralised managerial systems where a high degree of managerial autonomy is awarded to the local or front-line levels (for a discussion see European Commission (Mosley), 2011b). This is sometimes referred to as a 'loosely coupled' system. In these contexts it is likely that national level indicators and targets are focussed on a small number of intermediate outcomes. In centralised political systems that are combined with centralised managerial approaches, it is likely that national level indicators and targets will include processes and outputs or specified controls and regulations on activity. This is what is sometimes referred to as a 'tightly coupled' system. On the other hand, in federal political systems it is more appropriate for there to be greater regional and local input into the design of outcome indicators to be used at the national level for the comparison of performance variation between regional units, though it is also potentially appropriate (depending on the division of policy competencies) to have autonomous political goals and therefore different intermediate outcomes at the local and regional level.
- **Organisation of employment services and welfare benefit administration.** For example, in some countries a single PES organisation has responsibility for the administration of all 'out of work' benefits (and sometimes 'in-work' benefits also) as well as the delivery of employment services, while in others this responsibility is split. Even in cases where PES are responsible for employment services and welfare benefits, they may not be responsible for all welfare benefits. In these instances (as in *Germany*, for example) there may be a difference between the responsibility for contribution-based and tax-financed benefit payments. The duration of benefit

entitlements may also affect the type of performance measures chosen (for example, benefit duration measures will need to be designed with these entitlements in mind).

- **The degree of contracting-out of employment services** to the private, community and voluntary sectors or the use of arms-length public service management. Most PES contract-out training provision to some extent (Ecorys, 2012), though most keep information, advice and guidance services in-house. In some countries though (e.g. the *Netherlands*, the *UK*, *Germany* and *Denmark*), these functions have also been contracted-out to varying degrees. In circumstances where this more substantive contracting-out is in place, it might be consistent with the objective of facilitating innovation to adopt a pure outcome orientation, combined with payment-by-results (European Commission (Finn), 2011a). However, while it may not be appropriate to set targets for processes, it may still be beneficial to measure some inputs and processes in order to understand the nature of the service being delivered, maintain quality assurance and learn from experience of what does and does not work.
- **The socio-economic context.** The nature of PES performance management also needs to accommodate different socio-economic contexts. For example, in a 'tight' labour market with low levels of unemployment, a different mix of indicators and targets may be required for recessionary periods when unemployment is high. In the first context it might be more appropriate to use performance indicators and targets to increasingly focus on disadvantaged groups, whereas in a recessionary context it may be necessary simply to ensure that the PES is focussed on supporting jobseekers to move into work, to prevent unemployment and to encourage disadvantaged groups to take up training or other non-work interventions designed to enhance their employability over the medium-term. Again though, these considerations will be dependent on political choices.

### **3 GENERAL PRINCIPLES FOR PES PERFORMANCE MANAGEMENT**

#### **3.1 Our knowledge of PES performance management allows assumptions about its impact on performance improvement, but the evidence base needs to be improved**

Recent years have seen the first efforts to collate evidence about the ways in which performance management is conducted in different PES (Mosley, 2000; Mosley *et al.*, 2001; Grubb, 2004; PES Monitor, 2008; Nunn *et al.*, 2010; Ecorys, 2011a; Kaltenborn *et al.*, 2011). Ecorys (2012) represents the most comprehensive and consistent attempt to do this. However, even this is limited in its discussion of how performance management is used at an operational level, and its behavioural implications. This is partly because of the opaque and informal nature of some, especially internal, performance management practices. Likewise, the political nature of goal setting in the context of labour market policy means that even in the wider, and more studied realm of PES organisation and active labour market policy design, there is not yet a consensus on what the most effective mix of policies is to support activation (Nunn *et al.*, 2011). As such, the state of the current evidence base is able to support a series of *assumptions* about performance management and its relationship to performance improvement, through the intermediate mechanism of the types of behaviour and management approaches that it might encourage in PES. However, it is not sufficient to support definitive conclusions about what type of performance management supports different types of labour market outcomes.

#### **3.2 Performance management can contribute to organisational learning**

It is widely assumed in the management literature that performance management can bring benefits to organisational systems. It is assumed that this works by improving accountability, clarifying and generating support for the achievement of management objectives, including by introducing incentives and sanctions for their achievement and enabling learning from experience (Bouckaert *et al.*, 2010: 100-102). At its best, performance management can also serve as part of a more evaluative approach to management which focuses on substantive organisational learning and performance improvement through enhancing operational understandings of the link between activities (inputs, processes, outputs) on the one hand and their ultimate effects (outcomes) on the other (Sanderson, 2001).

Kaltenborn *et al.* (2011) find broad support for PES performance management among national experts. There is also evidence that real time performance management systems have been linked to learning, accountability and service improvement in other policy domains. The notable example of this is the application of improved performance management systems to policing in several US cities (O'Connell 2001). It is reasonable to assume that at least some of the assumed benefits do materialise from the use of performance management and none of the major studies of PES performance management report widespread disagreement about its desirability. However, it remains difficult to produce hard evidence of these benefits in the context of PES (see Box 1).

### Box 1: Challenges in proving the contribution made by performance management to PES performance

- There are few or no comparators to European PES which do not use some form of performance management, which can act as ‘controls’.
- By its very nature it is difficult to compare PES performance after the introduction of performance management, or in the event of a significant change in the nature of performance management. This is because PES performance is very significantly affected by factors outside of its control (such as economic trends) (Kaltenborn et al., 2011).
- It may be the case that the introduction of, and changes in, performance management regimes have a short-term positive effect that reduces over time (Nunn and Devins, 2012).
- While there are different approaches used in different European countries, the wide range of other institutional and labour market differences mean it is not possible to undertake simple comparison between countries to identify which approaches to performance management are the most effective in terms of labour market outcomes or the delivery of particular policies.

### 3.3 The design of performance management systems can avoid some common pitfalls

The specific design of performance management systems needs to be undertaken with a view to avoiding some common problems that can arise from performance management (see Box 2). There is no easy and simple way of doing this, but in designing performance management systems and measures, PES officials should account for how they have avoided the following common problems. Among these, there has been most concern in relation to PES over ‘creaming’ and ‘parking’, or the practice of focussing on jobseekers who are easy to place into work, while ignoring those who require more help. Several studies suggest that these practices are present in a variety of different countries such as the *UK*, *Australia* and the *Netherlands* (Dockery and Stromback, 2001; Johnson and Nunn, 2006; Nunn, 2010), though they are thought to be more prevalent in systems where contracting-out and payment by results operate (Struyven and Steurs, 2005).<sup>2</sup> These types of perverse behaviour can be best avoided through:

- **The design of balanced schemes** with measures that are designed to avoid an over-emphasis on specific quantitative measures (see below) and the **use of quantitative measures that counteract the production of short-term gains** such as measures of job quality, retention and benefit savings/earnings gains over the longer-term.

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<sup>2</sup> At the time of writing there was substantial media coverage in the UK about alleged creaming and parking, unethical practice and the potentially collapsing market in the contracted-out payment by results system.

- **The use of strong and consistent managerial messages** about what behaviours are and are not acceptable.
- **Integrating performance management in a broader evaluation strategy**, which helps to balance numerical performance information with more substantive information about operational practice.
- **Ensuring that performance is regularly reviewed and that a wide range of relevant stakeholders are included** in this process, as well as ongoing monitoring, may help to ensure that problems are minimised.

In addition, the PES performance management Benchmarking Project suggested that performance indicators should be used a mechanism to ask questions about performance rather than to answer them, suggesting an open and balanced management approach, helping to overcome these drawbacks. Integrating performance measurement with a broader evaluation strategy is crucial to this (see Section 5).

#### Box 2: Potential problems in PES performance management

- **Costs** – performance information can be expensive to produce (Mosley *et al.*, 2001). Since the costs associated with the collection and analysis of performance data are immediate and fixed, while the benefits to be derived from this process are by definition realised over the longer-term and are less certain: this is an important consideration to weigh carefully in the design of performance management systems. Handbooks and other guides asserting the benefits of performance management rarely cite the costs associated with it. The costs of this may outweigh the benefits associated with it (Bouckaert and Peters, 2002). That said, the costs of collecting, managing and responding to performance data were influential in persuading Jobcentre Plus to change its performance management system in the past (Johnson and Nunn, 2006). In order to ensure that these drawbacks are avoided, the costs of producing performance information should be regularly reviewed and the benefits of it need to be carefully elaborated. In particular, this can be aided by the use of analytical measures that help to understand the value of labour market interventions.
- **Negative externalities** – Performance targets may incite organisational behaviour which creates problems external to it. In the case of PES this might include inappropriate job submissions; discouragement of jobseekers; or poor demand/supply matching, creating problems for employers (Grubb, 2004: 363; Johnson and Nunn, 2006). Negative externalities can be avoided by carefully considering the incentive effects of performance measures and how they may impact on employers and the functioning of the labour market more generally.
- **Poor quality or late data** – the production of data that is inappropriate or too late to influence decisions or that managers and stakeholders do not understand/trust (Neely *et al.*, 1997; Nunn *et al.*, 2007a; Nunn *et al.*, 2007b). PES managers can avoid these problems by evaluating the utility of performance measures for those staff that use it.

- **Perverse incentives** – a variety of literature identifies a range of perverse incentives that can result from poorly designed performance measures which generate negative actions on the part of employment counsellors and PES managers (Neely et al., 1997; Bouckaert and Peters, 2002; Grizzle, 2002; Bruttel, 2004; Bruttel, 2005; Struyven and Steurs, 2005; Bouckaert et al., 2010; Nunn et al., 2012, Forthcoming):
  - **Creaming and parking** – the selection of jobseekers who can help themselves, for interventions that they may not need (creaming) and the de-selection of jobseekers who require help (parking).
  - **Gaming with performance information** – for example, slowing down or speeding up work to smooth out longitudinal performance variation and avoid increased expectations in the future; or diverting resources away from service delivery to manipulate administrative records to enhance reported performance.
  - **Sanctions** – One way of producing exits from unemployment is through manipulating the interpretation of unemployment benefit rules to wrongly remove eligibility from jobseekers.
  - **Benefit shifting** – Another noted way of producing reductions in benefit claimant numbers is through shifting claimants from one benefit to another, including potentially to ‘inactive’ benefits.
  - **‘Purchasing’ job entries** – The generation of an unnecessary intervention to ‘claim’ performance.
  - **Performance information duplication** – the duplication of information production at several levels of the organisation in order to monitor performance.

### 3.4 To be successful, performance management systems should be aligned with priorities and include quantitative and qualitative elements

There are a great many guides to undertaking performance management and the recommendations made by these can be taken into account when designing performance management systems (Audit Commission, 2000a; Audit Commission, 2000b; Treasury, 2001; OECD, 2004; Kennerley and Mason, 2008; OECD, 2009). Similarly, at European level, a PES benchmarking group has developed a set of agreed and defined indicators and good practice advice (see Box 3). This suggested that performance indicators need to be carefully designed, reflect the importance of context (employment rate, unemployment durations, workload and resources) and that emphasis should be placed on aligning indicators with common PES goals of:

- Aiming at a successful transition from unemployment to employment.
- Taking a special interest that the transition to employment takes place fast.
- Being focused on transitions from ALMP-training measures to employment.

- Opening access to a large share of vacancies through the PES information system.
- Making sure that registered vacancies are filled.
- Achieving satisfaction among customers (unemployed jobseekers and employers respectively).

### Box 3: The six performance indicators put forward by the PES Benchmarking Group

- Transition from unemployment to employment
- Speed of transitions from unemployment to employment
- Transition after training interventions
- Providing access to vacancies
- Vacancy filling
- Customer satisfaction for jobseekers and employers.

In addition, a number of studies of PES performance management make more specific recommendations. The following success factors are elaborated:

- A strong level of senior management and political commitment (Mosley et al., 2001; Kaltenborn et al., 2011);
- A degree of organisational separation between the PES and political control (Mosley et al., 2001);
- Setting challenging, but achievable targets (Kaltenborn et al., 2011);
- Use only performance indicators which can be influenced by the PES (Kaltenborn et al., 2011);
- The combination of qualitative and quantitative measurement and management techniques (Mosley et al., 2001);
- Availability of timely and robust data which allows the performance of cost-benefit analyses (Nunn et al., 2010).

### 3.5 Intermediate outcome indicators help PES to understand their contribution to labour market performance

Most PES recognise that they are not able to directly determine final outcomes such as the employment rate and therefore measure their contribution to these via intermediate outcome indicators, frequently with target levels of performance attached to them. There are five main forms of these indicators/targets, in addition to measures of customer satisfaction, but there is some significant debate about their comparative merits and disadvantages, which are set out in Table 2 below. Some of the key themes in these debates include:

- **Off-flow measures which require an intervention can introduce perverse incentives, but these can be offset by counteracting measures and**

**understanding the quality of outcomes** - On one hand, measures that do not require an intervention limit the capacity of the PES to influence measured performance, as a large proportion of all transitions will be without PES interventions and driven by exogenous factors. By contrast, measures which require an intervention can create gaming problems as PES generate additional and unnecessary interventions to 'purchase' off-flow performance, as was the case in the *UK* in a previous performance management regime (Johnson and Nunn, 2006; Johnson and Nunn, 2007; Nunn, 2007) (see Box 6). One way of mitigating against these problems is to include counter-acting measures and targets, though again some are critical of this approach (Grubb, 2004). These might include measures of repeat spells of unemployment or measures of employment quality for off-flows (to counteract placing jobseekers in short-term/low quality work), and targets associated with particular groups of jobseekers (to counteract creaming and parking) (European Commission (Finn), 2011a: 25-6). There are several such measures in operation in EU PES. For example, the *Austrian PES* only counts transitions to employment where the job lasts for more than two months. Similarly, the *UK PES* balances its transition to employment measure with a 'churn' indicator, though evaluation evidence suggests that these measures need to be given substantial emphasis if they are to counteract any perverse incentives (Nunn, 2010; Nunn and Devins, 2012).<sup>3</sup> Problems might also be counteracted by mixing short and long-term indicators and through the integration of performance measures in a broader system of analysis, evaluation and learning (see Section 5).

- **Duration measures may overcome some perverse incentives, but need careful design if they aren't to introduce others** - Kaltenborn et al. (2011) argue strongly in favour of 'duration volumes'<sup>4</sup>, arguing that they provide an incentive for the PES to work more concertedly with those jobseekers with poor employment prospects to bring down the average unemployment duration. Others (Grubb, 2004; Synthesis Forschung and OSB Consulting, 2004; OSB Consulting and Synthesis Forschung, 2007) suggest that they introduce perverse incentives by making it attractive for PES to refer jobseekers to low quality or poorly matched job opportunities which may not last long, as well as creaming and parking. They may also be associated with deadweight effects if employers recruit jobseekers subject to PES interventions over other jobseekers. Benefit duration measures also do not take account of changes to labour market conditions. While the desirability of this sort of PES activity will be partly determined by political decisions about labour market policy and PES objectives, this is particularly problematic if work is very short-term and savings in unemployment benefits/tax receipts are less than the costs of administering the changes to the unemployment benefit claim. Benefit duration measures therefore need to be balanced with other measures that enable a rounded analysis of PES and labour market performance.

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<sup>3</sup> In a recent evaluation of the new Performance Management Framework in the UK, it was not clear whether creaming and parking were taking place, but the 'churn' indicator was so low profile that most PES staff did not recognise it as influencing their behaviour.

<sup>4</sup> This refers to the total duration of all unemployment spells as a proportion of the stock of unemployed (in systems where there is no time limit to unemployment benefit eligibility) or who have left unemployment (in systems where unemployment benefit durations are limited).



- **Greater emphasis is also required on the measurement of PES interventions which can prevent unemployment** - Clearly the prevention of unemployment is a desirable objective and some PES performance measurement systems attempt to include this in the mix of performance measures used. For example, historically the *UK PES* counted placements into work of people using PES services but who were already in employment and the *German* system has included a measure of job-to-job transitions for those under threat of unemployment. However, these measures are difficult to construct in such a way as they avoid incentivising the PES to work with those who require help the least and they are difficult to measure or influence<sup>5</sup> for the PES (Kaltenborn et al., 2011). These measures are perhaps best suited to times of economic contraction when they are associated with particular interventions to prevent unemployment, where genuine unemployment risk can be factored in and deadweight effects are likely to be less important. This is especially the case where legal requirements oblige employers to notify the PES of potential redundancies well in advance of their occurrence, as is the case in *Germany*.

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<sup>5</sup> They are difficult to influence because they require the PES to be able to identify specific individuals who are at risk of unemployment and only some Member States require employers to notify the PES of this.

**Table 2: Advantages and risks of Intermediate Outcome Indicators**

<b>Intermediate indicator type</b>	<b>Detailed Indicator Types</b>	<b>Advantages</b>	<b>Risks</b>
<b>Off-flows/transitions</b>	- With an intervention	May suggest some form of value added from PES/ALMP spending.	Can generate unnecessary interventions. Can lead to gaming, creaming and parking.
	- Without an intervention	Avoids pressure to generate unnecessary interventions.	Does not show effects of PES/ALMPs, which may be relatively marginal in relation to economic trends. Does not incentivise performance.
	- Just off-benefits	Easy and cheap to measure.	Can incentivise poor quality outcomes such as benefit shifting or inappropriate sanctions.
	- Into work	Closely aligned to core PES purpose.	Can be expensive to measure. Can devalue training options.
	- Into specific types/duration of work	Reflects EU-wide pressures to increase the quality of employment.	Can disincentivise entry level employment outcomes and a great deal of evidence suggests 'work first' is successful.
<b>Benefit Duration</b>	- Threshold measures - Rate measures	Speed of transition into employment is crucial to PES goals. Rate measures are argued to be sensitive to labour market changes and can incentivise appropriate targeting of PES resources.	Can incentivise poor quality outcomes such as: benefit shifting, inappropriate sanctions or gaming; creaming and parking; and the inability to respond to changing labour market conditions.
<b>Longer-term impacts on jobseekers</b>	- Average wages over a period of time - Average employment duration during a period of time.	Can help to overcome problems with measuring the benefits of training and human capital ALMP interventions. May help to decipher differential impacts of different interventions.	Very costly to produce and requires advanced information systems linking tax and benefit records to be integrated with PES databases of interventions. Performance data is only produced over the long-term with little ability to adjust operations on an ongoing basis.
<b>Prevention of unemployment</b>	- Proportion of notified potential redundancies that are offset	Can help to reduce unemployment by incentivising interventions which prevent inflows before they occur. Reflect full range of PES activities in ensuring smooth labour market operation.	May incentivise PES to work with those who need help the least. Requires a system for notifying potential redundancies.
<b>Vacancy filling</b>	- Proportions of vacancies filled	Reflects the provision of services to employers as well as jobseekers.	
	- Proportions of vacancies filled within particular durations	Reflects the importance of ensuring swift vacancy filling for both jobseekers and employers.	
	- Proportion of vacancies filled from particular types of jobseekers	Reflects the need to focus on particular jobseekers who need the most help.	Can lead to creaming and parking and deadweight effects.

### **3.5.1 Longer-term measures of PES impacts can help to overcome the problems associated with short-term incentives**

Grubb (Grubb, 2004) advocates long-term tracking of the effects of employment outcomes of individual PES clients via their income over a defined period after they have had an intervention (e.g. five years). This is similar to the method used in the evaluation of some US TANF programmes (Hamilton *et al.*, 2001).

#### **Box 4: Linking long-term impact measures with consideration of the differential impacts of interventions**

It is also interesting to consider the evidence about the long- and short-term effects of training programmes on employability. Evidence (Nunn *et al.*, 2011) suggests that substantive training programmes only realise positive net benefits (for public spending – i.e. benefits of not claiming unemployment benefits and tax receipts minus the costs of the training intervention) over a longer-term period. Understanding this time horizon issue may be crucial in comparing the relative benefits of work-first activation versus more substantive training based interventions and might support Grubb's arguments here.

This idea is however made difficult to put into operation because of the expense, time delay and infrastructure required to produce long-term outcome information. A recent study by Ecorys (2011a) suggests that among EU PES only three (*Austria*, the *UK* and *Slovenia*) have integrated PES, social security and tax records, though it may also be the case that some of the *Scandinavian states* also have such unified citizen records.

This suggests that:

- All PES should give serious consideration to the development of integrated datasets that could enable the development of long-term datasets for the evaluation of the differential performance of interventions.
- That short-term (intermediate outcomes discussed above) and long-term measures (net public benefits/income impacts on individual beneficiaries) should be employed in a balanced approach.

### **3.5.2 Measuring customer satisfaction is important, but it can be done in different ways**

While attempts to build customer satisfaction into performance management are widespread, a variety of different approaches are present. In the *UK* this is based on an annual or bi-annual survey of jobseekers by an external organisation in addition to occasional qualitative research (Johnson and Fidler, 2008; Nunn *et al.*, 2009a; Nunn *et al.*, 2009b). The former Employer Engagement Target (partly a measure of employer satisfaction) has been discontinued (DWP Risk Assurance Division, 2010). In *Germany* as well, a very large customer satisfaction survey is undertaken on a quarterly basis, though this time employers are also included (Ecorys, 2011c). This is similar to the situation in *Austria* where a quarterly survey with a very large sample is used to assess

the satisfaction of both jobseekers and employers, and results from this feed into the Balanced Scorecard (Ecorys, 2011b). However, there is little comparative evidence in the literature on which to judge the relative effectiveness of any of these approaches in improving the quality of service to customers.

### **3.6 Effective target setting is reviewed regularly, builds-in continuous improvement and balances qualitative and quantitative information**

Target setting is a complex process. It involves technical calculations of objectives that are achievable at the same time as being challenging. The literature on this issue notes several important problems. The most significant is the tendency of performance to 'cluster' around the target (Meyer and Gupta, 1994; Van Thiel and Leeuw, 2002) and that badly set targets can be demotivating (Kaltenborn *et al.*, 2011). This clustering is where a range of observed performance between organisational units results in a target being set at the average level of top-quartile performance. Superficially this would appear to be achievable at the same time as challenging. Over time however, organisational improvements (and gaming, etc.) are likely to mean that all organisational units can perform at least close to this target, but those that have the capacity to exceed it are likely to avoid doing so because of the additional expectations that this will generate (Bouckaert *et al.*, 2010: 165).

There is no easy solution to these problems. However, a number of practices may help to offset them:

- Ensuring that targets are regularly reviewed.
- Ensuring that continuous improvement is built into expectations, while ensuring that expected levels of performance are realistic and achievable.
- Negotiating target setting in a top-down and bottom-up process including important stakeholders (such as social partners and relevant NGOs), ensuring that quantitative target levels and performance are subject to qualitative narrative explanation of both good and bad performance. It is at least as important to understand what *has* worked as well as what *has not* worked.
- Ensuring that quantitative and qualitative indicators are balanced and that the role of PES interventions is contextualised in a wider understanding of how the labour market is operating locally, regionally and nationally.

In sum, this amounts to seeing performance management as part of a governance and evaluative process rather than just a managerial task (see Section 5).

### **3.7 Understanding performance variation can combine with decentralisation to generate performance improvement**

Most PES adopt some form of benchmarking analysis between comparable organisational units to understand the degree of performance variation (Kaltenborn *et al.*, 2011; Ecorys, 2012). However, there is variety in the degree of sophistication used to

group similar organisational units in this comparative process. In the *UK PES*, all Districts are compared according to a range of criteria in a scorecard. While in the past this was used to rank Districts, the emphasis is now on assessing the extent to which Districts meet a series of benchmark levels. Recent institutional changes have aimed to establish a service by which District and other managers can explore performance variation (particularly 'under'-performance) and learn from best practice on a national scale, but it is too early as yet to judge the effectiveness of this. Variation is judged on a monthly basis, which some in the PES think can lead to 'knee-jerk' reactions to short-run variations in performance (see Box 6). In *Austria* by comparison, an equally sophisticated mechanism for grouping regions is in place and the regional directors are held to account for performance variation on an annual basis. Where clustering is in place it is clearly appropriate to ensure comparability in the analysis between different labour market contexts, finances and resources. Labour market context analysis should go beyond simple measures of unemployment stocks and flows, but also more qualitative judgements about the nature of labour market demand and supply (e.g. taking account of variables such as seasonal fluctuations, etc.) and resource considerations should include not just staffing and financial differences, but the types of support available. Kaltenborn *et al.* (2011) claim that only in *Austria* are internal resources fully integrated into the clustering approach. Despite this, Kaltenborn *et al.* (2011) remain critical, suggesting that the clustering approach ignores many factors which determine performance variation.

What does appear, from the PES's own evidence, to be effective in the Austrian case, is decentralisation. Where combined with negotiated target setting, long-term accountability and management autonomy, this appears to increase the sense of responsibility for performance improvement. Here the case study findings build on wider evidence that decentralisation is effective in increasing public sector performance (Van Dooren *et al.*, 2007). Crucially this sort of decentralisation seems to be essential to ensuring that analysis of performance variation has purpose.

### **3.8 There is limited evidence about the benefits of sanctions, rewards and competition**

While the evidence on sanctions and rewards in relation to performance variation is very limited for PES themselves, there is better emerging evidence in relation to contracted-out provision with regard to payment by results systems. Theoretically, contracting-out, payment by results and 'black box' approaches encourage innovation and performance improvement, leading to more efficient and effective provision. The existing evidence suggests that actual performance is mixed. In many cases some important problems have emerged (e.g. creaming and parking, gaming, market failure and ethical conduct) and evidence of the benefits in terms of labour market outcomes for jobseekers is uncertain (Struyven and Steurs, 2005; Finn, 2010; Finn, 2011a; European Commission (Finn) 2011a; National Audit Office, 2012). This might be partially explained by frequent institutional changes and a lack of time for contracted-out systems to bed-in. Importantly, over the longer-term there may be scope to think that selection effects will improve performance. The current evidence, though, would suggest caution in pursuing these

strategies. In this context, the use of sanctions and rewards *inside* PES in the form of payment by results, as suggested by some (Grubb, 2004), is questionable and based more on assumed net benefits rather than hard evidence of these. This is corroborated by the evidence base on the effects of competition more generally on performance improvement, and performance related pay, both of which are mixed (Van Dooren *et al.*, 2007).

### **3.9 Performance management should also be a governance rather than just a managerial process**

Both Nunn *et al.* (2010) and Weishaupt (2010; 2011) argue in favour of performance management as at least partly a political and social *governance process* as opposed to purely a technical managerial one. They emphasise the potentially beneficial role that the inclusion of the social partners can have in the process of performance management by including them in setting objectives and the selection and design of performance indicators and targets. They also suggest that this is important at both a national level and a local level, especially where a greater degree of decentralisation and local management autonomy is in place. For example, Weishaupt suggests that the inclusion of the social partners in PES and policy governance helped *Germany* cope comparatively successfully with the labour market problems associated with the economic crisis of 2008/9.

Picking up on Sanderson's (2001; 2002) recommendation about the links between performance management and evaluation, Nunn *et al.* go further to suggest that performance management needs to be placed in the broader context of policy and organisational learning. First, they suggest that performance indicators and targets need to be placed in a framework which can help to understand the relationships between inputs, processes, outputs and outcomes. They then suggest that whatever indicators are selected to represent proxy measures for the achievement of objectives, these need to be augmented by regular reviews of objectives and the assumed relationships between the different performance measures. They suggest that this is undertaken through a qualitative commentary on performance which incorporates more substantive evaluation findings to augment quantitative performance information. This commentary would then serve as the basis for inclusive discussions between the PES, politicians, social partners and other stakeholders. The aim of these cyclical reviews of objectives and performance would be to facilitate organisational and policy learning about the effects and outcomes associated with different models of service delivery. This is in line with the loose coupling recommended by several prominent researchers in the general literature on performance management in the public sector (Van Dooren *et al.*, 2007; Bouckaert *et al.*, 2010).

## 4 CURRENT PRACTICE IN PES PERFORMANCE MANAGEMENT

### 4.1 PES performance management is widespread, but practice varies

The research underpinning this comparison is drawn from a series of mini-case studies involving documentary review and interviews with PES officials in the PES in *Austria, Germany, the Czech Republic* and the *UK*<sup>6</sup>. Several cross-country studies that look at the approach to performance management in PES. For example, Mosley *et al.* (2001) suggested that MBO was widespread throughout European PES, featuring in 10 of the 18 PES surveyed by the late 1990s.<sup>7</sup> Nunn *et al.* (2010) also undertook a cross-national comparison, covering 31 countries. They found that performance management was used in all of the countries studied, though of course to differing degrees. This has been confirmed by other recent studies (OSB Consulting and Synthesis Forschung, 2007; Weishaupt, 2010; Ecorys, 2011a; Kaltenborn *et al.*, 2011; Ecorys, 2012).

Kaltenborn *et al.* (2011) investigated the use of MBO in the PES in *Austria, France, Germany, the Netherlands, Sweden, Switzerland* and the *UK*. They find that the use of MBO is in place in all countries, but that practice varies widely, determined in large part by factors such as the degree of PES centralisation. They found that although there are some important commonalities in the way that PES performance management is approached, there are also some important aspects of variation.

The most recent, and perhaps the most in-depth, cross-country study was undertaken by Ecorys (2012). The study is based on literature searches updating Nunn *et al.* and Kaltenborn's findings and country visits to undertake interviews with respondents from PES and labour ministries. The study produces detailed findings on a broadly comparable basis for most EU countries. The study does highlight the limitations of cross country studies as the level of detail uncovered about the precise nature and operation of PES performance management is in some cases disappointing. The comparative findings from the study are summarised in Table 3 and Table 4 below, but the headlines include:

- Most EU PES maintain a combination of intermediate outcome and output indicators, with some also explicitly using input indicators (*Belgium Le Forem; Bulgaria; Denmark; Ireland; Poland*).
- Analysis of the table and wider literature suggests that some countries appear to make much more explicit use of a wider range of indicators in PES performance management (*Austria; Denmark; France; Germany, Ireland; Netherlands; Sweden; UK*), whereas others are at the other end of the spectrum, appearing to use comparatively fewer measures (*Czech Republic; Luxembourg; Poland, Portugal*).
- The majority of PES also incorporate some measure of satisfaction (except *the Czech Republic; Greece; Lithuania, Luxembourg; Poland; Portugal*) with the use of their

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<sup>6</sup> The case studies were selected to demonstrate a range of institutional contexts and PES structures, from the centralised and national system with substantial contracting-out in the UK to the Bismarkian welfare structure in Germany, with disaggregated provision of unemployment benefits and social assistance and a relatively independent PES. Case studies were also chosen to represent a range of experiences in the use of performance management in the PES, with Austria, the UK and Germany having long-established systems and the Czech Republic having more recently established systems. The case studies were completed via a combination of desk-based research and interviews with PES representatives.

<sup>7</sup> This included the 15 Member States of the EU, Norway and all 3 of the separate PES in Belgium.

services, at least among jobseekers, but many also incorporate employers (except for *the Czech Republic; Estonia; Greece; Latvia; Lithuania; Luxembourg; Poland; Portugal; UK*).

- Most combine indicators in some form of balanced scorecard or other data presentation system (except *Bulgaria; Cyprus, Ireland; Italy; Lithuania; Poland; Slovakia* and *Spain*), but far fewer set out a clear framework of causal relationships between indicators.
- Many also combine the analysis of management information with a consideration of overall labour market information (on final outcomes such as employment, unemployment etc.), but do not explicitly make the analytical connections between PES performance and labour market conditions.
- There are some countries where very little is known about the types of performance indicators used, if any (*Luxembourg; Malta; Romania* and *Slovakia*). Data on *Italy* is hard to collate at the national level due to local level variation.

#### **4.2 Despite variability in practice the majority of PES use intermediate outcome indicators**

An overview of intermediate outcome indicators used in PES is provided in Table 3. The most popular intermediate outcome indicators are 'specific outcomes' or jobseekers making the transition into work rather than just off benefits. Comparable data on the construction of these indicators is less clear however, on issues such as what counts as a job or whether an intervention is required from the PES in order to validate the transition as being related to the work of the PES. Several PES differentiate specific outcomes on the basis of the economic sector that the job is in (e.g. *Greece; Cyprus*) and others on the basis of different groups of jobseekers (e.g. by age, gender, disability, etc.) (e.g. *the Netherlands; Denmark; Germany; Sweden; Slovenia; Belgium VDAB; Cyprus; Finland; Estonia; France; Hungary; Ireland; Norway*). Other important intermediate outcome indicators include measures of benefit duration (e.g. *Cyprus; Denmark; Estonia; Finland; France; Germany; Greece; Hungary; Ireland; Lithuania; Netherlands; Sweden; UK*) and indicators of vacancy filling (e.g. *Austria; Belgium Actiris; Belgium VDAB; Bulgaria; Cyprus; Finland; France; Germany; Hungary; Slovenia; Sweden*). However, the former is not usually a pure measure of average durations (as in *Germany*) but a measure of proportions of jobseekers that remain on out of work benefits beyond particular milestones (6 months/12 months, etc.). Vacancy filling is frequently used as a measure of the quality of service delivery to employers and therefore tends to be present in PES where services to employers are seen as a core objective, as opposed to those that see their work focussed much more on the supply-side of the labour market.



## Box 5: Variation in performance measures in the case study countries

There is some commonality and differences between the case studies in the types of targets and indicators used to understand PES performance. In the *UK*, recent changes have instigated a rationalisation of targets to two headline outcome targets based on the rate of people leaving unemployment to start work (relative to those that flow into unemployment) and the value of fraud and error in benefit claims. The first 'specific outcome' indicator does not require any intervention: all jobseekers who enter work are counted. The idea underpinning this is that the role of the PES is to intervene to speed up the process of jobseekers leaving unemployment. Despite this formal reduction of targets and indicators there is a large number of additional 'supporting' indicators with 'expected level of performance', some of which are used informally by managers as targets.

This idea also features to some extent in the design of indicators and targets in both the *German* and *Austrian* cases. In *Germany* this operates in two ways. Firstly, there is a measure of the average duration of unemployment and the placement indicator operates as a ratio of placements to the overall stock of unemployed and is therefore dynamic in nature, relative to the demand for employment services. In *Austria*, speed of transitions to employment are measured by a more simple six-month milestone target and an average duration indicator.

The *German PES* is also notable because it considers indicators of off-flows from benefits into work with and without a PES intervention. Further, the legal requirement for employers to notify the PES of impending redundancies means that the PES can operate with a prevention of unemployment target. Both the *German* and *Austrian* cases include a qualification that only off-flows into jobs that last a certain duration (one week in the *German* case and two months in the *Austrian* case) are counted.

The *Czech* system is less developed with no formal targets, and with most of the indicators employed being related to activities as opposed to outcomes. The system of establishing final outcome indicators for the PES through the political process is interesting. The problem with this sort of system is that the PES has only a limited impact on final outcomes such as the employment or productivity rate. The benefit is that this helps the PES to focus on appropriate final outcomes rather than becoming distracted by process targets.

**Table 3: Overview of Performance Indicators in European PESs**

	Process Quality			Inputs		Outputs					Intermediate Outcomes					Analytical Measures		Incentives		Indicator/Target Setting		Notes/ Sources
	Jobseeker Satisfaction	Employer Satisfaction	Benefit Processing	Spending	Staff nos	Vacancy Registration	Interviews completed	Ind. Completion	Referral to External	Sanctions	Specific Off-flows	General Off-flows	Employment Quality/Duration	Benefit Durations	Vacancy Outcomes	Cost/Input Ratios	Benefit Saving Rates	Rewards	Sanctions	Annual	Multi-Annual	
Austria	•	•	•			•			•		•		•		•		•		•			Ecorys, 2012 & Case study
Belgium Actiris	•	•				•		•			•				•						•	Ecorys, 2012
Belgium LeForem	•	•		•	•				•		•										•	Ecorys, 2012.
Belgium VDAB	•	•				•			•		•				•						•	Ecorys, 2012.
Bulgaria	•	•		•		•					•				•		•		•			Unclear whether off-flows specific or not. Ecorys, 2012.
Cyprus	•*	•*				•			•		•		•							?	?	* From 2012 onwards. Ecorys, 2012.
Czech Republic									•						•							
Denmark	•	•		•			•				•		•		•					•		Ecorys, 2012; Nunn et al., 2010.
Estonia	•		•				•		•		•		•				•				•	Ecorys, 2012.
Finland	•	•							•		•		•	•			•			?	?	Ecorys, 2012.
France	•	•					•				•	•	•	•						?	?	Ecorys, 2012.
Germany	•	•	•								•		•	•			•			•		Ecorys, 2012; Case study.
Greece						•		•	•		•		•							?	?	Ecorys, 2012.
Hungary	•	•				•			•		•		•	•			?	?	?	?	?	Ecorys, 2012.
Ireland	•	•		•			•		•		•	•	•				?	?	?	?	?	Ecorys, 2012.

Italy																					Highly differentiated at local level so difficult to summarise for national picture. Ecorys, 2012.
Latvia	•																				Nunn et al., 2010.
Lithuania						•			•				•								Nunn et al. 2010.
Luxembourg									•												Data on LU is very sparse. Ecorys, 2012.
Malta																					No information
Netherlands	•		•							•			•		•		•	•	•		Ecorys, 2012; Nunn et al. 2010.
Poland				•						•					•		?	?			Ecorys, 2012.
Portugal						•		•	•			•									Nunn et al. 2010.
Romania																					No information
Slovakia																					No information
Slovenia	•	•							•				•							•	No information
Spain	•						•		•				•							•	Ecorys, 2012
Sweden	•	•						•				•		•						•	Ecorys, 2012; Nunn et al, 2010.
United Kingdom	•		•							•			•							•	Case Study.

Data is from the Ecorys study (2012), other than in cases where data is missing, where data from is from Nunn et al. (2010) or case study interviews.

**Table 4: Management and Presentation of Performance Information**

Country	Benchmarking at local level	Use of Datawarehouse	Management information presentation tool	Data accessibility to most employees
Austria	x	X	X	X
Belgium		X*	X**	X***
Bulgaria	x	X		
Cyprus	x			X
Czech Republic	x	X	X	X
Denmark	x	X	X	X
Estonia	x	X	X	X
Finland	x	X	X	X
France	x	X	X	X
Germany	x	X	X	X
Greece	x	X		
Hungary	x	X	X	X
Ireland	x			X
Italy	x	X		
Latvia		X	X	X
Lithuania				X
Malta		X	X	X
Netherlands	x	X	X	X
Poland	x			
Portugal		?	X	X
Romania		X	X	X
Slovakia	x			X
Slovenia	x	X	X	X
Spain	x	X		X
Sweden	x	X	X	X
United Kingdom	x	X	X	
				Not known for Greece, Italy, Poland and Actris in Belgium.

Source: Ecorys, 2012.

\*In all three; \*\*In VDAB and LeForem only. \*\*\*VDAB only, unknown for Actris.

Many PES also measure specific types of output or activity and seek to compare the success rates of different measures. These include for instance, referrals to external support or training: an indicator present in most countries. In a small number of countries these indicators are combined with employment placements to construct comparative analytical indicators of success rates for different training or support programmes. An example here is Austria, where the Datawarehouse system enables detailed consideration of individual customer tax, benefit and PES records, thereby enabling consideration of the differential impacts of different labour market interventions. A much smaller number of PES monitor the completion of activities such as undertaking activation interviews or completing individual action plans with jobseekers.

#### **4.3 A number of countries make use of more sophisticated analytical measures to try to understand the added value of PES services**

One way of attempting this is through measures of costs per specific outcome, for different types of interventions. Though data in the Ecorys study was not sufficient to demonstrate how they worked, seven countries appear to use cost-ratio measures:

- In **Austria** – the unit costs of all staffing are measured as part of the processes aspect of the Balanced Scorecard.
- In **Bulgaria** – the ratio of costs per assisted transition into work are measured as part of a performance management framework.
- In the **Czech Republic** – there are a variety of measures used for assessing the average costs of various types of interventions and transitions into employment as well as the costs of social security payments per employee, thereby partially assessing costs of unemployment against the costs of resourcing the PES.
- In **Denmark** – costs are weighed against levels of service provision and social security payments.
- In the **Netherlands** – analytical measures are used to assess the efficiency of PES service delivery.
- In **Poland** – the average costs of assisted transitions into employment are measured.
- In **Spain** – the average costs of per participant and per hour of receipt of labour market interventions (such as training) are measured.

Monitoring inputs against outputs and outcomes is one way of arriving at analytical measures, but Ecorys (2012) report that very few PES incorporate inputs like spending and staffing levels to contextualise their performance information (those that do, include *Belgium Le Forem, Bulgaria, Denmark, Ireland and Poland*).

#### **4.4 Targets and indicator setting can involve different actors and timescales**

The target setting process in different PES varies and includes annual and multi-annual timescales and a variety of different top-down and bottom-up processes of negotiation.

Most PES use an annual process of target setting and accountability, while the three *Belgian PES* and the *Estonian PES* use a multi-annual process. As in other areas of management, setting multi-annual targets and budgets can help to overcome problems of short-termism (see Box 6).

#### Box 6: Problems of short-termism in target setting and accountability in the UK

In the *UK PES* a new performance management framework has recently been introduced, with one of the main objectives being to overcome problems of short-termism in holding managers and organisational units to account for performance variation. While the formal outcome target setting procedure has always been undertaken on an annual basis, many PES officials and managers note that the process of monitoring performance and accountability has often led to frequent changes of emphasis and management priorities, as apparent underperformance on one or other outcome measure generated short-term pressures to prioritise particular activity-based measures. This is widely thought to have distracted managers and employment counsellors from focussing on helping jobseekers to find work. The new project management framework is explicitly designed to prioritise transitions into employment and to avoid the generation of short-term pressures on other priorities, especially by removing management accountability for activities. This has proven difficult to enact however and the new project management framework has been accompanied by a variety of activity-based operational measures, though it is too early to tell what the impact of this will be (Nunn and Devins, 2012).

Virtually everywhere there is a negotiated process of target setting including the PES and the relevant government ministry. In some countries however, there is an additional sub-national process of negotiation at different organisational levels of the PES (such as *Austria, Germany, Denmark, Estonia, Greece, Spain, Finland, France, Hungary, Slovenia*) (Ecorys, 2012: 81).

#### Box 7: Decentralisation and target negotiation and accountability in Austria

There is considerable autonomy at regional (provincial level) in *Austria*. These nine provinces negotiate targets with the national level of the bureaucracy. Provinces set targets for sub-provincial levels and these tend to exceed the target levels set for provinces themselves. That said, there appears to be a tendency to agree to target levels throughout the system that are achievable.

Geographical units are monitored for their performance against other statistically similar (criteria unspecified) geographical units. Variation in performance within comparator groups is understood to be derived from differences in real performance. Regional directors are encouraged to take responsibility for performance and are held to account for variation, something that PES officials suggest has had a significant impact on performance improvement over recent years.

The four case studies were illustrative of differences here. All four start with a national 'top-down' process, but there are important differences in the extent to which these are negotiated. In the *UK*, there is a negotiation process, but it remains a mainly technical exercise and essentially retains a top-down emphasis. In *Austria* and *Germany* in

particular, there is more evidence of negotiation between national and regional/local tiers. Moreover, in both *Austria* and *Germany* (see Box 8) there is a strong role for the social partners in setting indicators and targets, whereas in the *UK* this is much less the case and target setting is seen as a mainly managerial process. In the *Czech Republic*, indicator setting is an explicitly political process with a strong role for parliament. There is also some role for regional negotiation of indicators, within the political process.

#### **Box 8: Including stakeholders in target setting in the unemployment compensation system in Germany**

The BA is run by a Board of Governors with tripartite representation. This then jointly, with government, appoints a three person management board which takes day to day operational management of the BA (Bundesagentur für Arbeit) in its role as administrator of the time-limited unemployment insurance system. The regional (Länder based) tier is largely a 'transmission belt' for the transfer of national priorities downward, but at the local level there is substantial managerial and governance input, again with tripartite representation. The national tier hands down broad targets and sometimes binding operational guidelines (Weishaupt, 2010). These are then allocated to the 176 local employment agencies by the regional directors, who have autonomy to take into account local variation in capacity and labour market conditions in agreeing target levels of performance with the local agencies. This process starts with a centrally set performance proposal, handed to the regional tier. With knowledge of this, the local agencies make proposals to the regional tier about the level of performance to be expected of them. These are then scrutinised by the regional tier before being aggregated and sent to the national tier. These aggregated proposals are then discussed between the national and regional tiers with a view to arriving at a consensus. This approach appears designed to generate ownership of performance targets through dialogue between the different levels, though the higher level in the organisational hierarchy has preference in resolving disagreements. The negotiation process is apparently fully used and there are frequent examples of local and regional explanations for lowering expected levels of performance being accepted at regional and national level, as well as examples of these being rejected.

#### **4.5 Performance management is used to compare between districts and regions, but individual performance monitoring is more limited**

In most PES there is some form of benchmarking local offices and/or other organisational units. Only in *Cyprus*, *Italy* and *Luxembourg*, do Ecorys (2012: 81) find that this is not the case. In all four of the case studies performance data are reviewed on a regular basis and include some form of benchmarking of geographical units (of a similar status) against one another on the basis of performance variation. In the *UK* this is done on a monthly basis via an extensive scorecard system with a very large range of performance indicators that rank as either green (met the expected level of performance) or red (did not meet it). While recent changes have tried to move away from the ranking of districts because of the distorting effect it was thought to have on managerial behaviour, managers still informally

rank their district in this way (Nunn and Devins, 2012). This managerial process is augmented by regular, if ad-hoc discussions, of PES performance in parliament.

#### Box 9: Accountability and controlling of performance in Germany

In the unemployment compensation system local agencies are subject to benchmarking between themselves and comparator local agencies, based on differences in their local labour market. In this process, local agency targets are agreed on with a view to bringing each agency up to the level of the top performers in the comparator groups. There is a monthly, quarterly and annual process of monitoring performance, through a series of 'dialogues'. These dialogues are based on information reports derived from the national management information system (Sottung and Becker, 2008). This system allows local agencies to enter a commentary alongside their performance information, identifying weaknesses, explanations and actions planned to improve performance. This is then used as the basis for monitoring that these actions are undertaken (Bundesagentur für Arbeit, 2012). This is augmented annually by a report which provides public information on PES performance and again includes a commentary to explain the data presented. In *Germany* there is also an institutionalised process for the social partners to be part of the performance management process through membership of the PES Board.

For unemployment compensation, the Jobcentres are subject to national government targets and some input into their governance from a variety of social interests at the local level. There are frequent (monthly) meetings between national and regional tiers and between regional and local tiers to discuss progress on performance indicators. The national BA Annual Report presents a qualitative and discursive commentary which explains performance against the headline indicators in the context of broader labour market trends and changes. At the local level a range of social interests are part of the controlling process on a regular basis through being part of the governance structure for local agencies.

In *Austria* there is again regular monitoring of performance data, but in this case much more autonomy for regional managers to vary their operational approach. As in *Germany*, there is social partner involvement here through participation on the PES Board. In the *Czech Republic* performance is monitored through monthly meetings between regional and national directors and through the publication of an annual report. These monthly meetings consider performance variation between regions and local offices, but there is no formal benchmarking and clustering process. Social partners are involved in scrutinising PES performance and provide regular updates to the Government.

One important issue in performance management is whether targets are applied to individual PES counsellors. In the past the *UK* has had such a system, but moved away from it due to the perverse incentives it was thought to include. Nevertheless, while individual performance targets are explicitly excluded from the new formal performance management system, there is evidence that they are widely used on an informal basis by local level managers.



## Box 10: Past problems with individual incentives in the UK PES

In a previous PES performance management system in the *UK*, known as the Job Entry Target (JET) (which ran in a variety of different forms from around 2001-2005), there was a strong emphasis on individualised targets, though no real payment incentives. Individual employment counsellors were given firm targets for the number of 'points' they were to amass, with these resulting from 'assisting' different (weighted) categories of customers to find employment. The 'hardest to help' customers were allocated the most points while those already in work and looking for job changes were allocated the least. The system required each individual employment counsellor and their office to be able to 'prove' an intervention and that the customer had found work through 'tracking' their progress via telephoning them and their new employer. A high degree of managerial emphasis was given to awarding points and a 'daily placing list' was widely scrutinised in each local office. A strong culture of performance against this list and the points total was encouraged and took hold.

While being strongly motivational, the system also led to some problems such as a lack of willingness to share information, for example about potential job vacancies, between employment counsellors; competition to help those customers for whom transition to employment seemed a likely prospect; and occasional generation of unnecessary interventions where a customer had already found employment (including the spending of public money to achieve this in small payments to jobseekers for incidental equipment such as boots or public transport travel passes). Additionally, the process of 'chasing' customers was inefficient and expensive. For these and other reasons an alternative to the JET was introduced to overcome these problems, and this itself has also now been superseded by a new performance management framework.

Early evidence about the operation of the new performance management framework suggested that it is not yet clear whether employment counsellors are pressured by the targets in operation to engage in creaming and parking behaviour. Indeed it was not clear, in the new system, what counts as inappropriate and appropriate prioritisation and a number of different practices were being followed.

In *Germany* individualised targets are explicitly ruled out, and there is no evidence that they are applied informally. Individual targets are also not used in *Austria*, but the Datawarehouse system used enables individuals and managers to generate individual level data on performance, though there are protocols about how this can be accessed and used. In the *Czech Republic* there are no individual targets but, like other countries, a new individual appraisal process does rate the performance of individuals, based on qualitative information.

### Box 11: Monitoring, control and reward at the individual level in Germany

The 13 national targets are used throughout all levels of the organisation, down to team level, inside the local agencies. Officially, no targets are disaggregated to individual level and there is no evidence that this takes place. However, individual advisors would recognise the 13 national indicators and target levels as those that their own team are accountable for. Team managers have the capacity to draw on a wider range of information, if they wish, to help them understand and manage performance, but they are held to account for the national indicators and targets only. These are thought to be of equal importance, so that placements, prevention of unemployment, benefit duration and customer satisfaction are used in a balanced way to judge performance holistically.

Ecorys (Ecorys, 2011a) report that rewards are offered in the *German* case for achievement of targets. These operate throughout the organisational hierarchy, with managers at all levels having a performance appraisal that is partly influenced by achievement of their signed performance agreements (with expected levels of performance set against the national indicators). This is then used to judge eligibility for a small proportion of their salary (performance related pay) and also influences their promotion prospects.

In both *Austria* and *Germany* the PES operates an individual reward programme for strong aggregate performance at the district/regional level. In *Germany* the performance bonus was described as 'small' and operates at a managerial level, while in *Austria* it was described as 'substantial' for regional and local managers. Further, it was reported that in *Austria* increased accountability and autonomy for individual regional directors over recent years has strengthened ownership and responsibility for performance improvement. In the *UK*, no rewards or incentives are applied to individual PES staff, but in the past individual counsellors have been subject to very detailed process controls on what they can and cannot do to help jobseekers. However, recent changes have begun to reduce these prescriptive controls and provide individual counsellors with enhanced autonomy. Early evidence of this suggests that these recent changes have increased their sense of personal accountability for performance as they engage more with the process of attempting to help overcome jobseekers' individual barriers to employment, rather than simply working through a series of centrally prescribed activities.

#### 4.6 Problems stemming from performance management

Problems were noted in several of the case studies. However, this was only seen as partly the result of performance management in the *UK*, and mainly in the past rather than in the current PES system. However, there has been a great deal of recent media scrutiny of examples of creaming, parking and inappropriate unpaid job placements in the contracted out system, as well as sanctioning (Domokos, 2011; Nunn and Devins, 2012: 33) in the PES itself.

Problems of creaming and parking may be more substantial in *Germany*, but this is generally thought to result from the differentiated benefits system. In time-limited benefit systems, especially where accountability for this and subsequent social security payments are differentiated (as is the case in *Germany*), there is suspicion that there is an incentive to 'ignore' those customers who PES counsellors may view unlikely to make the transition to employment within the time-limit. For example, in a system where the PES is responsible for administering time-limited unemployment benefits for 12 months, and employment counsellors judge that a jobseeker has substantial barriers to employment (such as alcohol or drug dependency, chronic skills shortages like language barriers), then it may be a rational judgement to concentrate more on those jobseekers for whom employment within the year is more plausible. While *Germany* perfectly fits this 'stereotype', the PES performance management system there does attempt to mitigate against this via the use of average benefit duration indicators. In *Austria* concerns from trade unions about the use of short-term employment to generate placements into work have led to the introduction of the minimum employment duration of two months in relation to the performance management system. No problems were reported in the *Czech Republic*.

There is some evidence that creaming and parking may be more significant in sub-contracted systems with outcome based payment incentives. However, counteracting measures, which incentivise job retention, benefits and earnings gains, might be able to offset these pressures toward creaming and parking (Finn, 2010; European Commission, 2011a (Finn): 25-6), and there is no reason to think that these off-setting factors could not work within PES. It is also suggested here (see Section 5) that inclusive governance, integrating performance management with evaluation and cyclical organisational and policy learning reviews, can help to identify and minimise these problems.

## 5 DISCUSSION: WHAT SHOULD PRACTITIONERS CONSIDER IN DEVELOPING PERFORMANCE MANAGEMENT IN PUBLIC EMPLOYMENT SERVICES?

### 5.1 EU level activity can help to strengthen the evidence base about 'what works'

Knowledge about PES performance is still emerging and further research is required to inform what is known about the detailed, internal and often informal methods of managing performance in different EU PES. Several attempts have been made to collect this information and though one recent study has gone further than before to do this in a comprehensive and consistent form (Ecorys, 2012), the dynamic nature of PES organisation and performance management means that findings are quickly out of date and the inevitably opaque nature of internal and often informal managerial processes makes the data expensive to collect. Even though the Ecorys study is the most comprehensive yet, there is scope to further elaborate on how performance management works within individual PES especially in relation to informal and internal processes at the individual employment counsellor level. A large-scale collaborative study with substantial national case studies would help to further deepen our knowledge of practices and their effects at the national and sub-national level and contribute to a stronger evidence base about 'what works' in relation to performance management in a variety of different institutional, social and economic contexts. A subsequent annual survey of PES to collect information on their objectives, external and internal performance measures, would help to collect, augment and renew this information in a consistent format and in a relatively inexpensive manner. Particular themes where the existing research base is limited include:

- **The behavioural effects of different performance management regimes** and in particular the effects of measure design, sanctions/rewards, management practices and benchmarking.
- The contribution that different governance models around performance management play in shaping PES performance, and in particular the **benefits and disadvantages of the representation of a range of social partners** and other stakeholders in PES governance.
- The **role that decentralisation plays** in supporting PES performance by strengthening the connection between the PES and local labour market objectives.
- The **potential for developing longer-term final outcome indicators** (such as the long-term income measures suggested by Grubb) and analytical measures in some EU Member States, and the feasibility of integrating these into PES performance management. Of particular interest would be the scope to combine these with markers related to particular interventions to improve our knowledge base about the comparative benefit of different types of active labour market programmes. Other potential measures of PES success might include the feasibility of indicators of job-readiness and progress toward labour market

attachment that might help to give emphasis to work carried out with the most vulnerable and excluded groups who are at the biggest risk of ‘parking’.

- It is also crucial to ensuring that PES are able to meet the challenges posed by the **negative effects of performance management**.

There are several EU level forums that could be used to support such research, such as the PES-to-PES Dialogue and the PES Benchmarking programme, and these concerns might also be integrated into the agenda under the new *Programme for Social Change and Innovation*.

## 5.2 Key points to consider when designing performance management systems

Performance management, and particularly MBO, is applied throughout European PES. However, it is also noted that performance management can present some serious problems which can undermine any potential benefits. Therefore, in designing or reforming PES performance management, policy makers and senior PES officials should consider the following:

- **Performance management should be aligned with political objectives:** It is appropriate for the political process to set labour market policy more broadly and this should then inform organisational objectives that can then be operationalised in performance measures for the PES.
- **Performance management needs to fit the particular context in which it is deployed:** Contextual issues that need to be considered in developing performance management systems include the degree of separation of the PES from the labour ministry; the degree of local/regional decentralisation in the PES itself; the degree of contracting-out of employment services; and socio-economic conditions.
- **Performance management should be based on robust data:** if PES managers and advisers are to make decisions and respond to performance information, they need to be confident about the data that populate indicators.
- **PES practitioners need to understand and be able to influence measured performance:** this is again crucial to enable managers to respond appropriately to signals sent by performance information.
- **Performance information needs to be timely and usable:** for example, long time delays may mean that that by the time performance signals are received, it is too late to respond to them. Information also needs to be available to frontline managers and staff to help them respond to performance signals, through easy to access information systems.
- **Perverse incentives should be removed:** agreed performance measures and targets need to be thoroughly audited to ensure that there are no perverse incentives, and that creaming/parking and deadweight effects are not present.

- **Ensure that the right number and spread of performance measures are present:** this is not just a technical exercise and PES need to learn from one another and from their own experience to reach these judgments. Having too many measures leads to confusion and erodes their regulatory/signalling effect: too few can lead to perverse incentives and gaming.
- **Performance variation needs to be understood qualitatively:** it is necessary to combine quantitative performance data on variation with qualitative explanations of it. Alongside inclusive governance, this helps to identify appropriate managerial responses to performance data.
- **Transparency and oversight:** can help to overcome problems of misrepresentation of data.
- **The costs of collecting and analysing performance information should be proportionate:** an ideal performance management system may be excessively costly. This expense is only worthwhile if it helps to realise proportional benefits.
- **Performance management needs to be integrated with human resources practices:** the term 'performance management' in English is often used separately to refer to the types of public sector management discussed in this report as well as human resource practices at the individual level. Yet it is relatively uncommon to link the two together. Effective performance management needs to extend from the organisational to the individual level.
- **Extreme care is required with the use of sanctions and rewards in relation to performance management:** The evidence from the small number of countries that have implemented contracted-out payment by results systems suggests that this has had only mixed success in achieving the theoretical benefits from such systems. More time is required to judge conclusively the effects of these systems, but they may not be suitable for PES.
- **Performance management frameworks and analytical measures can help to understand how to generate performance improvement:** Such frameworks should establish assumed linkages between inputs, processes and outcomes without setting explicit targets for inputs and processes.
- **Performance improvement could be strengthened by linking evaluation and performance management:** Policy, programme and project evaluations can provide more in-depth analysis and help to augment numerical performance information.
- **PES performance management can be improved by decentralisation and inclusive governance:** There is some evidence that including social partners and labour market stakeholders in PES governance can make labour market policy more responsive to changing economic requirements and decentralisation: combined with an outcome oriented approach to performance management it can help to generate operational accountability for performance improvement.

### **5.3. PES might give consideration to the development of integrated data systems**

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 are however complex and costly to implement. PES and Member State governments should consider whether the development of such an integrated system is feasible and cost effective in their own national setting. However, the performance management benefits that might emerge from this are considerable.

### **5.4. PES practitioners require appropriate training to understand how to respond to performance signals**

It is clear that all PES practitioners need to be aware of the system of performance management in place, feel confident that measured performance is accurate and understand how they can influence that performance. This suggests that PES staff need to be trained in the performance management system in place and receive regular and concise communications about performance as well as necessitating that the performance management system is simple to understand. Frontline staff are also a valuable source of information about some of the problems associated with performance management as well as how to improve performance. As such, they should be regularly consulted about the setting and measurement of targets, especially those that apply to their own work. Finally, PES staff should not be held accountable for targets that they cannot influence or that are poorly aligned with their role.

### **5.5. Intermediate outcome indicators are the most effective core targets, but there are risks as well as advantages and these need to be carefully considered**

There is a broad consensus that performance management ought to be outcome oriented and that the precise design of outcome measures needs to fit within their legal, policy, institutional and socio-economic context. Since there is only an indirect connection between PES activity and final outcomes, the most effective form of these are intermediate outcome indicators, as in Table 1 (p3). There are no 'ideal' intermediate outcome indicators; all of them have a variety of advantages and risks associated with them (see Table 2, p13). Measures which incentivise transitions from benefits to employment need to ensure that gaming opportunities and perverse incentives are minimised. Benefit duration measures appear to place managerial emphasis on ensuring as swift a transition as possible to work for jobseekers, but these need to be checked carefully against problems of creaming, parking and inappropriate job referrals. However, what constitutes appropriate and inappropriate prioritisation and job referrals is very much a national political question and is therefore beyond the scope of EU-wide advice.

Beyond this, there is no clear consensus in the literature on the most appropriate core targets for PES, in relation to their labour market services function. This is partly the result of the relatively narrow and shallow evidence base on PES performance management. The general literature on performance management is however suggestive that even if a stronger PES-specific evidence base was available, there would be no ideal set of performance indicators and targets. Rather, the challenge is iteratively to adapt and improve performance management, taking account of the considerations set out in Section 0. This is particularly important in the light of the finding that the improvement effect of performance management targets and indicators wanes over time as agents learn how to perform, avoid excess performance and manipulate performance information (Van Thiel and Leeuw, 2002).

#### **5.6. Performance management frameworks and analytical measures can help to understand how to generate performance improvement**

While it is most appropriate to attach targets to outcomes, it may still be beneficial to include input, process and outputs in a performance management framework, such as set out in Table 1. Such frameworks should establish assumed linkages between inputs, processes and outcomes without setting explicit targets for inputs and processes. This sends clear signals about expected activities but avoids restricting the scope for operational innovation, especially when combined with some degree of political/managerial decentralisation. It allows monitoring and learning from experience about what does and does not work.

#### **5.7. Performance improvement could be strengthened by linking evaluation and performance management**

If performance management is to be effective, it cannot just be a means of incentivising behaviour and holding managers to account. Rather, it needs to form part of a broader process of policy and organisational learning. Performance management frameworks can help to make assumptions about the role of employment services and make desired final outcomes more explicit. Of course, numerical performance indicators are only one form of information about how different kinds of policy intervention work to improve the functioning of the labour market. Policy, programme and project evaluations can provide more in-depth analysis and help to augment performance information. Ideally, performance management and evaluation would form part of a regular and conscious strategy of review and conscious questioning and re-articulation of the assumptions that underpin performance management frameworks. This might be undertaken on an annual or multi-annual basis and used to generate a commentary on what both evaluation and performance information can say about the effectiveness of service delivery and management strategies. Such a regular process would help to enable organisational and policy learning.



## **5.8. PES performance management can be improved by decentralisation and inclusive governance**

Facilitating evaluative practice and organisational and policy learning might be more effective when combined with inclusive governance and decentralisation. There is some evidence that including social partners and labour market stakeholders in PES governance can make labour market policy more responsive to changing economic requirements (Weishaupt, 2011). It might also be assumed that it can help to counteract some of the problems associated with performance management such as gaming, the manipulation of data and perverse incentives. Inclusive dialogue on commentaries, based on performance and evaluation data, and grounded in explicit assumptions about the linkages between activities and outcomes might reasonably be assumed to strengthen the process of policy and organisational learning.

It might also be assumed that this dialogue needs to be undertaken at as local level as possible, so that learning and institutional design can reflect the differing needs of local labour markets. This is in line with the evidence of what drives performance improvement in the public sector, the principle of loose-coupling and the increasing recognition of the need for integrated and networked governance. It recognises, for example, that the performance of local labour markets is an issue for a wide range of social interests and stakeholders other than the PES, and therefore acknowledges that the PES cannot act alone if it is to influence the final outcomes that relate to the political goals set for it.

However, in developing decentralisation strategies, there is also a need to provide mechanisms for sharing learning and good practice and to ensure equality in access to services of a minimum quality. There is no simple good practice guide to the ways in which these objectives should be balanced, however budget flexibility and the effective use of outcome oriented performance management is crucial (European Commission (Mosley), 2011b).

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## 7 APPENDIX: CASE STUDY SUMMARIES

### 7.1 The UK

#### 7.1.1.1 Targets, indicators and accountability

Over the last year there has been a considerable change in the way that the UK PES – Jobcentre Plus – uses performance management. The previous system included a headline labour market impact target (the Job Outcome Target – JOT) alongside five other indicators and targets related to: customer service (Customer Service Target – CST); the delivery of timely interventions (Intervention Delivery Target – IDT); clearance times for benefit claim processing (Average Actual Clearance Time – AACT); an estimation of the value of fraud and error in the administration of unemployment and out of work benefit claims (Monetary Value of Fraud and Error – MVFE); and a measure of the delivery and quality of services to employers (Employer Engagement Target – EET). In addition to these formal targets a range of other performance management targets (though often called benchmarks) and indicators were used in the different functional directorates (Call Centres, Benefit Processing Centres and Job Centres), including the use of scorecards to rank Districts and centres. The headline targets were set by negotiation between technical experts in the Department for Work and Pensions (DWP) (the government department responsible for employment services) and Jobcentre Plus (an organisationally separate delivery agency), who would be held to account for the delivery of performance by DWP.

In April 2011 this system was replaced by two outcome indicators which include the MVFE target from the previous system and a new intermediate outcome target based on an expectation of how quickly unemployed jobseekers will move off the benefit register and into employment. These two headline measures are supported by a suite of ‘supporting data’. The thinking behind the design of the intermediate outcome target was that this clarified operational expectations and emphasised that the role of Jobcentre Plus is to support its ‘customers’ in making the fastest possible transition into employment – i.e. employment services have the effect of speeding up the process of leaving unemployment benefits.

The initial expectation from within DWP was that the wider supporting data would be used flexibly by managers to understand the contribution of different teams and functional delivery arms to the overall performance of Jobcentre Plus. However, senior officers in Jobcentre Plus have ‘operationalised’ the headline targets and supporting data into a series of Scorecards which include as many as 60 additional performance indicators for each of the Directorates, many of which have ‘expected levels of performance’ set against them.

Targets continue to be set on a national basis and are then broken down to ‘Districts’ in a mainly national negotiation between policy officials and statistical experts. Though one intention of the new system is to support increased local level flexibility in the delivery of services, targets are simply handed to Districts and scrutiny of and accountability for performance is very much a top-down process, with some degree of informal ranking of Districts being undertaken on a monthly basis. District level managers are themselves

held to account for their District and scrutinise performance variation at local office level.

Recent years have seen a large scale contracting out of employment services for long term unemployed jobseekers and those at risk of this. This has been accompanied by a complex payment by results system, in which performance information and targets have been used to calculate the levels of reward to private sector providers. The system is designed to have a sliding system of rewards to providers for helping different categories of jobseekers into employment and for them staying in employment for as long as a year. This means payments range from around GBP 3 000 (EUR 3 500) for a young unemployed person to around GBP 14 000 (EUR 16 000) for a long-term unemployed jobseeker with health or other serious barriers to employment. This system has attracted substantial negative comment in recent months because of concerns about whether there are sufficient opportunities for providers to meet expected placement levels (National Audit Office, 2012), allegations of creaming and parking and inappropriate mandatory unpaid work placements (e.g. Butler, 2012).

#### **7.1.1.2 Performance management practice**

The new system has led to a variety of performance management practices at the local level. This is largely because local level managers and operational staff have not had access to performance information to assess their direct contribution to the national headline targets. In Jobcentres this has led to individual advisers developing and collecting their own performance information, though this is in most cases in line with the national measure and is an effective proxy for contribution to the national target. The large number of indicators and performance targets in the Scorecards mean that local level managers also select from these what they perceive to be the most effective measures to use to assess the performance of individual advisers. It is however very early in the adaption to the new system and as such, there is likely to be further change, especially as national level performance information against the headline target is more readily and rapidly available to frontline staff.

#### **7.1.1.3 Controlling, rewards and sanctions**

There are no formal rewards or sanctions to individual members of staff or teams as a result of over or under-performing in terms of performance-related pay. However, performance is scrutinised and under-performance among advisers may result in being placed on a Performance Improvement Plan, which includes support measures and objectives for improvement. Failure to meet these can result in the use of HR processes and ultimately dismissal. Over-performance can lead to informal praise and could support applications for promotion through formal HR procedures.

Performance measures themselves have often been part of a detailed system of operational controls operated by Jobcentre Plus and have set alongside very detailed guidance (some of which was laid down in legislation) on standard operating procedures. Over recent years, however, there has been a move to relax these controls slightly and the new project management system is designed to support this. For example, advisers now have more flexibility in the operation of their diaries and the scheduling of contact with jobseekers and the types of support they are able to offer. Flexibility and innovation are also part of the intended benefits to be derived from

contracted private sector employment services.

#### **7.1.1.4 Problems**

It is too early to conclude definitively that any of the common problems in PES performance management are associated with the new Jobcentre Plus Project Management System. Given the design of the system and current media concern with the degree of creaming, parking and inappropriate sanctions and referrals in contracted out employment services, there is a need to continue to scrutinise the new system for the emergence of these problems (Nunn and Devins, 2012). Media concern has also been focussed on whether jobseekers are inappropriately sanctioned by Jobcentre Plus Advisers as a direct impact of having 'targets' in the Scorecards for the numbers who are penalised for not seeking work effectively (Domokos, 2011), though these have now been removed. In the previous system, creaming and parking was thought to exist despite the design of specifically weighted outcome-based performance targets intended to incentivise working with the 'hardest to help' (Nunn, 2010).

## **7.2 Austria**

### **7.2.1.1 Targets, indicators and accountability**

Research (Ecorys ,2011a) suggests that the Austrian PES – an arms length body – had eight headline targets for 2011:

- Transitions into employment of older persons within six months of unemployment;
- Transitions of youth within six months of unemployment into long-term-unemployment;
- Transitions into employment of people with less than two months employment in the last year;
- Number of women re-entering the labour market after childbirth in vocational training or in employment after training;
- Transitions into employment after training;
- Number of girls/women in higher technical vocational training;
- Filled vacancies;
- Registered high-skill vacancies.

Where targets apply to job entries, these are only counted when they last more than two months.

Targets are negotiated on an annual basis by the AMS's tripartite board and comparison with previous years (e.g. Nunn *et al.* ,2010) suggests both continuity and change in these targets. Target levels are then negotiated between national PES officials and regional directors who are encouraged to have responsibility for achieving target performance.

Internal performance management can utilise these indicators/targets broken down to



individual adviser level as well as a wide range of additional data that is available to every PES adviser through the 'Data Warehouse' system. The integrated nature of the administrative data in this warehouse and the functionality of the system for data retrieval has previously been praised for the Austrian PES (Lissenburgh, 2004). According to Kaltenborn et al. (2011), the AMS has a Balanced Scorecard which is used for long-term strategic management purposes and incorporates the targets set for the external MBO system (20%) as well as indicators for inputs/processes, employee (5%) and customer satisfaction (25%).

#### **7.2.1.2 Performance management practice**

There is considerable autonomy at regional (provincial level). These nine provinces negotiate targets with the national level of the bureaucracy. Provinces set targets for sub-province levels and these tend to exceed the target levels set for provinces themselves. That said, there appears to be a tendency to agree to target levels throughout the system that are achievable.

Geographical units are monitored for their performance against other statistically similar (criteria unspecified) geographical units. Variation in performance within comparator groups is understood to be derived from differences in real performance. Regional directors are encouraged to take responsibility for performance and are held to account for variation, something that PES officials suggest has had a significant impact on performance improvement.

#### **7.2.1.3 Controlling, rewards and sanctions**

There is an annual process of benchmarking (using the Balanced Scorecard) and ranking of offices and this ranking process is used to allocate a performance bonus, which is substantial as a contribution to overall pay. This is decided on a regional basis.

#### **7.2.1.4 Problems**

Kaltenborn et al. are critical of the approach to understanding performance variation between regions, suggesting that it ignores several factors other than performance, that could explain variation and that these factors are also dynamic over time (Kaltenborn *et al.*, 2011). There is also some concern, especially from the labour unions, that performance targets can incentivise inappropriate and low quality job placements, such as in temporary work with employment agencies who also run AMS placement contracts (Weishaupt, 2010). Despite this, it is notable that pressure from the trade unions has led to the introduction of a minimum requirement that jobs last two months before they are counted as off-flows against the targets.

### **7.3 Germany**

#### **7.3.1.1 Targets, indicators and accountability**

The governance of employment and welfare services in Germany is complex. There are now two different systems with different governance and performance management

processes, determined by the different aspects of the social law that they relate to. The first relates to the time-limited (12 months) Unemployment Insurance Scheme operated by the quasi-independent PES - Bundesagentur für Arbeit (BA) – and the second relates to the reformed Unemployment Compensation Scheme operated in some areas by local municipalities on their own and in others through a partnership between municipalities and the BA. Unemployment insurance (UI) is funded through employer and employee contributions while unemployment compensation (UC) is tax financed. The former is therefore the subject of more autonomous governance through the BA and the latter is subject to performance management imposed by the Labour Ministry.

BA's 2010 (Bundesagentur für Arbeit, 2011) annual report lists 13 targets/indicators for the UI system, including:

- Average Duration of unemployment for beneficiaries and non-beneficiaries of Unemployment Insurance
- Number / % of job placements
- Number of job to job transitions
- Vacancy filling
- Unemployment benefit processing in a standard time
- Three separate measures of customer satisfaction.

For the UC system, interviews with BA officials suggested the following targets and indicators:

- Placements as a proportion of the unemployed stock plus inflows to the UC scheme, with the target being to increase this.
- A numerical measure of the UC stock of longer-term unemployment (24 months plus), with the target being to reduce this.
- A measure of the total value of passive benefit payments, with the target being to reduce this.
- A range of process and quality measures including a twice yearly survey of customer satisfaction.

There are several notable aspects to the design and structure of these targets and indicators. Placements are measured as a proportion of the overall stock and inflow of customers. This means that the placement indicator operates as a rate of placements in relation to the overall level of unemployed and is therefore dynamic in nature. Second, placements have to be into work (rather than just an off-flow from benefit claims) and this has to last for more than seven days. Third, there is a differentiation between placements with and without an intervention. The placement measure and target itself does not require an intervention to count, but there is a separate vacancy filling measure which does require a BA intervention. In this way the system seeks to incentivise advisers and teams to work with jobseekers to get them into work, at the same time as not creating the perverse incentive to generate unnecessary interventions. The design of these measures also helps to protect jobseekers from pressures on the PES to refer them to ill-suited employment. A further notable feature is the 'prevention of unemployment' target that operates for the BA within the contribution-based UI scheme (Kaltenborn *et al.*, 2011). This is measured by job-job transitions and

is enabled by provisions in the social code that mean that employers have to give employees notice of a forthcoming redundancy and employees are compelled to notify the BA of this. This then gives the BA a period of time in which they can work with these customers to support them to find alternative employment. Finally, customer satisfaction is given a strong emphasis within the system (Bundesagentur für Arbeit, 2012) and is measured on a twice yearly basis via a customer satisfaction survey, whose results are disaggregated down to local agency level and subject to scrutiny for variation between benchmark clusters of offices, though in actuality there is apparently little variation between clusters or within them, on this measure.

The BA is run by a board of governors with tripartite representation. This then jointly, with government, appoints a three person management board which takes day to day operational management of the BA. The regional (Länder based) tier is largely a 'transmission belt' for the transfer of national priorities downward, but at the local level there is substantial managerial and governance input, again with tripartite representation. The national tier hands down broad targets and sometimes binding operational guidelines (Weishaupt, 2010). These are then allocated to the 176 local employment agencies by the regional directors, who have the autonomy to take into account local variation in capacity and labour market conditions in agreeing target levels of performance with the local agencies. This process starts with a centrally set performance proposal, handed to the regional tier. With knowledge of this, the local agencies make proposals to the regional tier about the level of performance to be expected of them. These are then scrutinised by the regional tier before being aggregated and sent to the national tier. This aggregated proposals are then discussed between the national and regional tiers with a view to arriving at a consensus. This approach appears designed to generate ownership of performance targets through dialogue between the different levels, though the higher level in the organisational hierarchy has preference in resolving disagreements. The negotiation process is apparently fully used and there are frequent examples of local and regional explanations for lowering expected levels of performance being accepted at regional and national level, as well as examples of these being rejected.

Local agencies are also subject to benchmarking between themselves and comparator local agencies, based on differences in their local labour market. In this process, local agency targets are agreed on with a view to bringing each agency up to the level of the top performers in the comparator groups.

#### **7.3.1.2 Performance management practice**

Once targets are set, there is a system of quarterly performance management dialogues between the national tier and regions and regular dialogues between regions and local agencies. These dialogues are based on information reports derived from the national management information system (Sottung and Becker, 2008). This system allows local agencies to enter a commentary alongside their performance information, identifying weaknesses, explanations and actions planned to improve performance. This is then used as the basis for monitoring that these actions are undertaken (Bundesagentur für Arbeit, 2012).

The 13 national targets are used throughout all levels of the organisation, down to team level, inside the local agencies. Officially, targets are not disaggregated to individual level and there is no evidence that this takes place. However, individual advisors would recognise the 13 national indicators and target levels as those that their own team are accountable for. Team managers have the capacity to draw on a wider range of information, if they wish, to help them understand and manage performance, but they are held to account for the national indicators and targets only. These are thought to be of equal importance, so that placements, prevention of unemployment, benefit duration and customer satisfaction are used in a balanced way to judge performance holistically.

For unemployment compensation, the Jobcentres are subject to national government targets and some input into their governance from a variety of social interests at the local level. Ecorys (2011a) report that there are frequent (monthly) meetings between national and regional tiers and between regional and local tiers to discuss progress on performance indicators. The national BA Annual Report presents a qualitative and discursive commentary which explains performance against the headline indicators in the context of broader labour market trends and changes.

### **7.3.1.3 Controlling, rewards and sanctions**

Ecorys (2011a) report that rewards are offered in the German case for the achievement of targets. These operate throughout the organisational hierarchy, with managers at all levels having a performance appraisal that is partly influenced by achievement of their signed performance agreements (with expected levels of performance set against the national indicators). This is then used to judge eligibility for a small proportion of their salary (performance related pay) and also influences their promotion prospects.

### **7.3.1.4 Problems**

While creaming and parking is noted in the German case in relation to contracted out services (Jahn and Ochel, 2007) and within the approach to segmenting jobseekers, there appears to be little evidence to suggest that this results from the performance management system. Rather the differentiation of responsibilities between the insurance and tax-financed system may create an incentive to park the most difficult to help jobseekers until they move into the tax-financed system. There is however, an attempt in the performance management system to counter-act creaming and parking through the inclusion of a benefit duration measure which means that customers leaving the insurance based system after 12 months have a negative impact on measured performance. The customer profiling/segmentation process also enables individual advisors to set longer-term job entry goals for jobseekers with greater barriers to work and also to select from a wide range of training opportunities, matched to longer-term placement prospects. In theory this helps to incentivise advisors to work with jobseekers that may only have prospects of finding work towards the end of the 12 month period.

## **7.4 Czech Republic**

#### **7.4.1.1 Targets, indicators and accountability**

Headline outcome targets for 2011:

- *Increase the overall employment rate of people aged 20 - 64 years to 75%;*
- *Increase the employment rate of women (20 to 64 years) to 65%;*
- *Increase the employment rate of older people (55 - 64 years) to 55%;*
- *Reduce youth unemployment (15 - 24 years) by one third compared to 2010;*
- *Reduce the rate of unemployment of the low-skilled by a quarter compared to 2010.*

Ecorys (Jahn and Ochel, 2007) report that these outcomes, as agreed through parliament, are supported by a large number (up to 150) of activity indicators, but no targets are set against these. They include the:

- Number of registered jobseekers per PES employee;
- Average monthly number of contacts with registered job applicants and jobseekers per PES employee;
- Number of applications for job mediation and applications for job retraining per PES employee;
- Number of applications for unemployment benefit per PES employee;
- Number of executions performed within the scope of employment;
- Number of commenced retraining placements including ESF per PES employee;
- Number of job applicants and jobseekers allocated to retraining upon agreements (supported by particular funds);
- Average price of retraining a job applicant and jobseeker (paid only from resources for active employment policy) - indicator to be finalised; and
- Outcome of retraining placements.

Targets are set through an annual process. The labour ministry and the head of the PES negotiate expected levels of performance, with consultation with the regional directors. This is subject to scrutiny and agreement in parliament.

Performance is monitored as part of the fortnightly and monthly directors meetings between the Labour Office and the regional offices. These meetings include the consideration of variation in performance between organisational units, but are not supported through formal benchmarking or the use of control groups. An annual report on the labour market is produced and this includes an assessment of the effectiveness of the PES and its ALMPs. The PES report that social partners monitor the activities of the PES and report back to government on a regular basis.

#### **7.4.1.2 Performance management practice**

Recent reforms to the welfare system in the Czech Republic mean that the PES has recently taken overall responsibility for all welfare benefits, including social assistance and inactive benefits from the municipalities who previously had responsibility for these areas. The newly centralised system is coordinated nationally by the Labour Office (the PES) and then through 14 regional offices which in turn have responsibility for 242 local offices. At the same time as increasing the benefits administration responsibility of the PES, some requirements on employers (such as the obligation to register vacancies with the PES) are being relaxed. These changes have had an effect on performance management in the sense that they have required a redesign of the management information system that is used to collect and present performance management data.

In addition, a new individual performance evaluation process is currently being introduced and this will be linked to sanctions and rewards for individual PES advisors, but it is not yet fully functional. The majority of the information informing the evaluation process will be qualitative.

The recent merging of the different benefits regimes under the PES will lead to changes in performance management and associated information systems in the near future, but this has not yet happened.

#### **7.4.1.3 Controls, rewards and sanctions**

No controls, rewards or sanctions were noted in the PES interview.

#### **7.4.1.4 Problems**

In the interview with the Czech PES, no problems were identified.

**Table 5: Overview of PES Performance Management in Case Study Countries**

<b>Country (PES)</b>	<b>Inputs</b>	<b>Outputs</b>	<b>Processes</b>	<b>Intermediate Outcome</b>	<b>Final Outcome</b>	<b>Analytical Measures</b>	<b>Governance</b>
<b>UK Jobcentre Plus</b>		<b>- There are multiple measures of activity presented in Scorecards with 'expected levels of performance set' which act as benchmarks in a way similar to targets.</b>	Many processes are measured though qualitative checks and measures of time taken, e.g. to process benefits.	<b>- Proportion of inflows to unemployment that move into work within specific timebands. - Monetary Value of Fraud and Error.</b>			- Mainly managerial, Jobcentre Plus directors held to account by senior civil servants and ministers; also scrutinised in Parliamentary debates.
<b>AT (AMS)</b>		<b>- Registered high-skill vacancies.</b>		<b>- Transitions into employment of older persons within 6 months of unemployment; - Transitions of youth within 6 months of unemployment into long-term-unemployment; - Transitions into employment of people with less than 2 months employment in the last year; - Number of women re-entering the</b>		- Data Warehouse enables complex analysis. - BSC operated with combined analytical measures & long-term customer outcome tracking/intervention analysis. - Extensive benchmarking is undertaken at local level.	- Tripartite board structure. - Annual and quarterly monitoring. - Best performing local offices on BSC are rewarded. - Reported targets linked to objectives.

				<p>labour market after childbirth in vocational training or in employment after training;</p> <ul style="list-style-type: none"> <li>- Transitions into employment after training;</li> <li>- Number of girls/women in higher technical vocational training;</li> <li>- Filled vacancies.</li> </ul>			
<b>DE (BA)</b>						-	
<i>Unemployment Insurance system</i>			<ul style="list-style-type: none"> <li>- <b>Unemployment benefit processing in a standard time.</b></li> <li>- <b>Three separate measures of customer satisfaction.</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>Average duration of unemployment for beneficiaries and non-beneficiaries of unemployment insurance.</b></li> <li>- <b>Number / % of job placements.</b></li> <li>- <b>Number of job to job transitions</b></li> <li>- <b>Vacancy filling.</b></li> </ul>		<ul style="list-style-type: none"> <li>- Extensive benchmarking is undertaken at local level.</li> </ul>	<ul style="list-style-type: none"> <li>- Tripartite board structure, independent PES contractor;</li> <li>- Quarterly performance dialogues form part of an annual cycle.</li> </ul>
<i>Unemployment compensation system</i>			<ul style="list-style-type: none"> <li>- <b>A range of process and quality measures including a twice yearly survey of customer</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>Placements as a proportion of the unemployed stock plus inflows to the UC scheme, with the target being to increase this.</b></li> <li>- <b>A numerical</b></li> </ul>			<ul style="list-style-type: none"> <li>- PES accountable to govt. for delivery of services and targets.</li> <li>- Quarterly performance</li> </ul>



			satisfaction.	measure of the UC stock of longer-term unemployment (24 months plus), with the target being to reduce this. - A measure of the total value of passive benefit payments, with the target being to reduce this.			dialogues form part of an annual cycle.
<b>CZ (MPSV)</b>	- Average price of retraining a job applicant, jobseeker (paid only from resources for active employment policy).	A series of work volume/productivity measures: - Number of registered jobseekers per PES employee; - Average monthly number of contacts with registered job applicants and jobseekers per PES employee; - Number of applications for job mediation and applications for job retraining per PES employee; - Number of applications for unemployment benefit per PES employee; - Number of executions performed within the		- Outcome of retraining placements.	- Increase the overall employment rate of people aged 20-64 years; - Increase the employment rate of women (20-64); - Increase the employment rate of older people (55-64); - Reduce youth unemployment (15-24); - Reduce the low-skilled unemployment rate.		

		scope of employment; - Number of job applicants and jobseekers allocated to retraining upon agreements (supported by particular funds); - Number of commenced retraining placements including ESF per PES employee.					
<b>PT (IEFP)</b>	- Spending on particular types of training and work placement referrals/ prog. Provision.	- <b>Specific types of training referrals.</b> - <b>Specific types of work placement/experience referrals,</b>		- Nos. of job entries. - Job entries from different interventions.	- Employment, unemployment and inactivity.		Annual and monthly reporting of performance.