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GOV/PGC(2010)3/REV1

Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

09-Apr-2010

English - Or. English

**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
PUBLIC GOVERNANCE COMMITTEE**

GOV/PGC(2010)3/REV1
Unclassified

**The OECD Public Governance Review of Finland
Main Issues for Peer Review Discussion**

41st session of the Public Governance Committee

**15-16 April 2010
OECD Conference Centre, Paris**

This paper presents the main issues for discussion from the OECD Public Governance Review of Finland. Committee members are requested to comment on possible directions for Finland and for other OECD countries to respond to the challenges raised in the report, and the extent to which a comprehensive and systemic approach to reform is required in order to address these challenges.

This revised version includes changes to paragraphs 103, 107 and 113, shown in underscore and strikethrough.

The full report text will be made available separately to Committee members for comment by written procedure.

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JT03281504

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Executive summary

1. The Finnish Government has an excellent track record in responding to very difficult economic situations, and yet, it may now be facing its biggest challenge. Since the mid-1990s, and prior to the current global economic downturn, Finland has enjoyed an encouraging economic position where GDP has grown strongly in a low-inflation environment, with rising employment and a sound fiscal position. Critical to this success was the public administration's role in supporting Finland's remarkable transformation from an economy specialised in traditional industries to a diversified and modern economy, and in helping the country navigate the Nordic economic crisis of the early 1990s. As a result, the Finnish citizenry today has maintained its high trust in a public administration that has over 200 years of experience. They see it as a key partner for service delivery and economic development, as well as the mechanism to realise many Finnish values of social solidarity and equality through the public sector's crucial redistributive role.

2. Rather than resting on past successes, however, the Finnish Government has continued its long-standing tradition of proactively looking to identify the next wave of challenges on the horizon, as well as existing and potential new solutions to address them, drawing from experiences both inside and outside of Finland. With this in mind, the Finnish Government asked the OECD to look at its ability to respond to horizontal challenges at the state level and across levels of government in order to work in an efficient and effective manner.

The sustainability of the Nordic Model

3. As in other Nordic countries, Finland has successfully combined openness to globalisation with collective risk sharing based on a high level of social cohesion. The role of the Finnish public sector has become more important due to increasingly complex policy challenges which threaten the sustainability of the Nordic model, including shifts in the global economic environment and, more recently, to the impact of the global economic crisis and the ageing of the population. In addition, internal migration away from rural areas due to urbanisation – a more recent phenomenon in Finland than in other European countries – is also posing geographic challenges for public service delivery. In this context, rising demands and expectations from citizens concerning both the quality and equality of public services are increasing pressure on the public administration to improve its efficiency and responsiveness and to be innovative and flexible in responding to longer-term issues.

4. The public administration's contribution to Finland's economic success and social cohesion is well recognised. Its ability to respond to new developments will have an impact not just on economic growth, but citizens' way of life, for example: the sustainability of small northern towns, based on mining or logging industries; the close proximity of high quality public services, even in sparsely populated areas; and a tradition of strong local authorities. The Finnish Government may not be able to support all of these aspects of traditional life, but it has an important role to play in making communities and regions more economically viable, in promoting economic growth and innovation, in encouraging innovation in public service delivery, and in reinforcing social cohesion by helping to ease economic and social adjustments. The government needs to better communicate the difficult challenges and choices that are required of the society as a whole, and then to make those choices, on behalf of the citizenry, when the time comes, as the steward of Finnish public values, resources and objectives.

Achieving strategic agility

5. A sophisticated political system has evolved in Finland to maintain the complex balance of rural and urban interests, and the preferences of other stakeholders. This is primarily embodied by the allocation of ministerial portfolios and by the Government Programme of the coalition government. While the results of

these agreements are relatively transparent and robust, they are difficult to adjust during a term of government. The result is a reduction in the Finnish public sector's strategic agility¹, *i.e.*, the government's ability to anticipate and flexibly respond to increasingly complex policy challenges. Strategic agility requires a whole-of-government perspective in order to determine what requires collective action – and therefore needs to be treated in a horizontal fashion for the government as a whole – and what should be handled at a devolved sector or level in order to ensure the greatest responsiveness to the issue at hand.

6. Strategic agility is about taking decisive action where necessary, as coherently as possible and in line with existing priorities and constraints, but it is not just about making quick decisions (though increased responsiveness is one of the objectives); it is about having the frameworks in place that enable fast and quality decisions, and to ensure their effective implementation in order to generate public value. In particular, this review looks at three of the prerequisites for achieving strategic agility: strategic insight, collective commitment, and resource flexibility (for definitions see Box 1 on page 12).

7. **Strategic insight:** Strategic insight is the first prerequisite for achieving strategic agility. In particular, it helps the government to develop its vision of what it hopes to achieve. Finland is one of the most advanced OECD countries in terms of identifying and placing high-level commitment behind horizontal, government-wide programmes through its Government Programme. The current Government Programme makes explicit commitments to look at climate change, while setting up cross-cutting programmes on health, employment and entrepreneurship, and the well-being of children, youth and families. Experience shows, however, that vision alone is not enough, and horizontal priorities still lack sufficient follow-through and resources to realise the vision (see following sections on Collective Commitment and Resource Flexibility).

8. Finland is also a leader in terms of forecasting for issues that may confront the government in the future, but its current approach – to identify one issue for study over the government mandate – lacks sufficient flexibility to receive and test possible new issues as they arise. Finally, Finland has made great strides in areas such as setting up frameworks for citizen engagement, but the practice of consultation and engagement is not sufficiently widespread, nor its value sufficiently understood. This may arise, in part, because the place of consultation, and its potential benefits, is not well-understood in the public service. Effective planning and decision-making requires governments to balance competing interests and information, and to anticipate future risks, costs and opportunities. Finland could better achieve this balance by placing more attention on the frameworks to take into account both evidence and opinion in decision-making, and to determine what evidence-base is needed for which types of decisions. In this way it can better benefit from the expertise and experience of a wide variety of actors in analysing the current context, constantly interact with the surrounding environment to be permanently aware of the current strategic position, and better scan forward to understand the changing environment.

9. **Collective commitment:** Achieving collective commitment to realise strategic insight requires an understanding of the main engine that delivers the will of government – the public service – and its capability, its values, its incentives, and its limits. This does not necessarily mean consensus as the public service will often be called to push beyond its comfort zone to work in new ways and to achieve more difficult objectives. It will also be asked to constantly do more for less, which makes it all the more important that it understands why it is being asked to work a certain way and what are the consequences if it is unable to do so. This is critical for the successful carrying out of the government's agenda. Adherence to the government's common vision could be improved in a more explicit way by addressing both incentives and values within the public service. Finland is hindered in its ability to achieve collective commitment on both fronts, and at both the strategic and individual level:

- In terms of incentives, the main steering mechanism at the strategic level – the Government Programme – and the allocation mechanism, through the Budget Framework, are separate and so

there is no financial incentive to support horizontal work; at the individual level, while the performance management system is well-designed, it is not sufficiently linked to strategic goals and objectives.

- In terms of values, the public administration lacks strong leadership and accountability at the centre of government, and efforts to develop individual leadership are advancing slowly. The result is that horizontal priority areas in the Government Programme get short shrift, rather than being fundamental drivers of public value creation for the whole of Finnish society.

10. Collective commitment will be of particular importance for Finland to improve performance in areas that cut across individual sector portfolios, such as e-government. While Finland has moved quickly to identify and consolidate back office shared services, it has fallen behind in the area of service delivery. The SADe programme, launched in 2009, is looking to create centres of competency at all levels of government to provide front office services to citizens and business on behalf of the rest of government.

11. The relative homogeneity of the Finnish public service means that quite a lot is accomplished through informal working methods and networks that cut across sector boundaries. This is important in that it significantly lowers public sector transaction costs. The public sector values that drive these ways of working could be further strengthened, however, through clear communication of vision and stronger leadership from politicians and the centre of government, as well as within ministries and agencies. This will be critical to achieve both formal and informal commitment to implementing the collective vision.

12. **Resource flexibility:** In these fast changing times, resource flexibility is of increasing importance as a tool for the strategic agility of governments. Finland has limited ability to move both personnel and financial resources to support changing priorities. In terms of financial resources, most of these limitations are due to the separation of steering and budget planning as discussed above. In terms of personnel resources, the limitations seem to be more cultural and self-imposed. The most important initiative in this area is the Productivity Programme which looks at how to increase efficiency and productivity of the public administration by managing the reduction of the public administration by 9,645 person-years by 2011. While this programme has contributed to the public sector's relative state of fiscal health, in order to actively promote further innovation and productivity, it will need to better link reductions in staff with efforts to examine how to promote real innovation, in particular by helping smaller government bodies and by looking for cross-government opportunities for increasing efficiency and effectiveness.

13. The government has sought to break down barriers across sectors by combining funding streams and simplifying regulations in the basic services delivery areas: health, education, and social services delivered by municipal authorities, but which receive a significant amount of their funding from state government. The expectation is that greater coherence of budget and regulations will give local authorities new possibilities to innovate and to find efficiencies in order to serve their citizens better. Bringing down the barriers alone, however, is insufficient. Other issues, such as local capacity and the interplay with other sub-national reforms, also have a bearing on local authorities' ability to innovate in service delivery.

14. **Multi-level governance:** All of the above issues hold true for relations both within state government and across levels of government. A number of municipal and regional reforms are now underway in Finland to ensure the sound structural and financial basis for the provision of municipal services, and to rationalise the current system of regional state administration. While expected to improve the efficiency of sub-national governments and to clarify the regulatory and reporting streams, there is a need to better communicate the rationale and execution of these reforms and to further involve sub-national authorities as reform partners, to further align horizontal and vertical objectives, and to build up local capacity in order to promote local innovation and services that are adapted to local needs.

Preparing the public administration for continuous change

Finland has come into the global financial and economic crisis with a relatively strong fiscal situation that would be the envy of many of its OECD peers. It has a strong competitive environment, a qualified workforce, and a deserved reputation for good governance. Yet, along with many other OECD countries, it realises that preparation for the future is essential to maintaining one's global standing. While this effort needs to be strategically driven by the centre, it requires the commitment of the public sector as a whole, and increasingly, it requires a whole-of-government vision and horizontal ways of working to meet modern challenges. It is not surprising then, that Finland has afforded a critical role to assuring the preparedness of its public service, both to meet its own responsibilities, and to work with the rest of Finnish society to identify and achieve common goals and objectives, to prepare for future challenges, to build and sustain public and societal capacity, and to communicate the challenges and choices faced by the country as a whole. In order to do so, building strategic agility will allow the government to better tap into and use a public service that is already of high quality.

Overview

15. Since 1987, successive Finnish Governments have focused on the modernisation of government with public management reforms receiving strong political level support. The public administration's 200th anniversary in 2009, once again provides an opportunity for Finland to review its public sector institutions and arrangements. Part of the Finnish success story is due to the willingness that is part of the 'Finnish way' to innovate and to look beyond borders for examples of international best practice. The Finns have traditionally used external reviews to supplement in-country thinking with high-level outside perspectives. As such, Finland has asked the OECD to undertake a Public Governance Review to assess how the Finnish public administration is performing from an international comparative perspective, in terms of: 1) its ability to deliver on government objectives, in particular from a whole-of-government perspective; and 2) its preparedness to meet current and future challenges.

16. As part of the comprehensive review, the OECD has analysed the operation of the Finnish public administration, with a particular focus on horizontality within the public administration, the relationships between levels of government and with citizens and businesses, innovations and quality of public service delivery, and the impact of information society policy on e-government. With the current government period to end in early-2011, the timing of the review was scheduled for 2009-2010 to ensure that review findings would be available to provide input into preparations for the next electoral period.

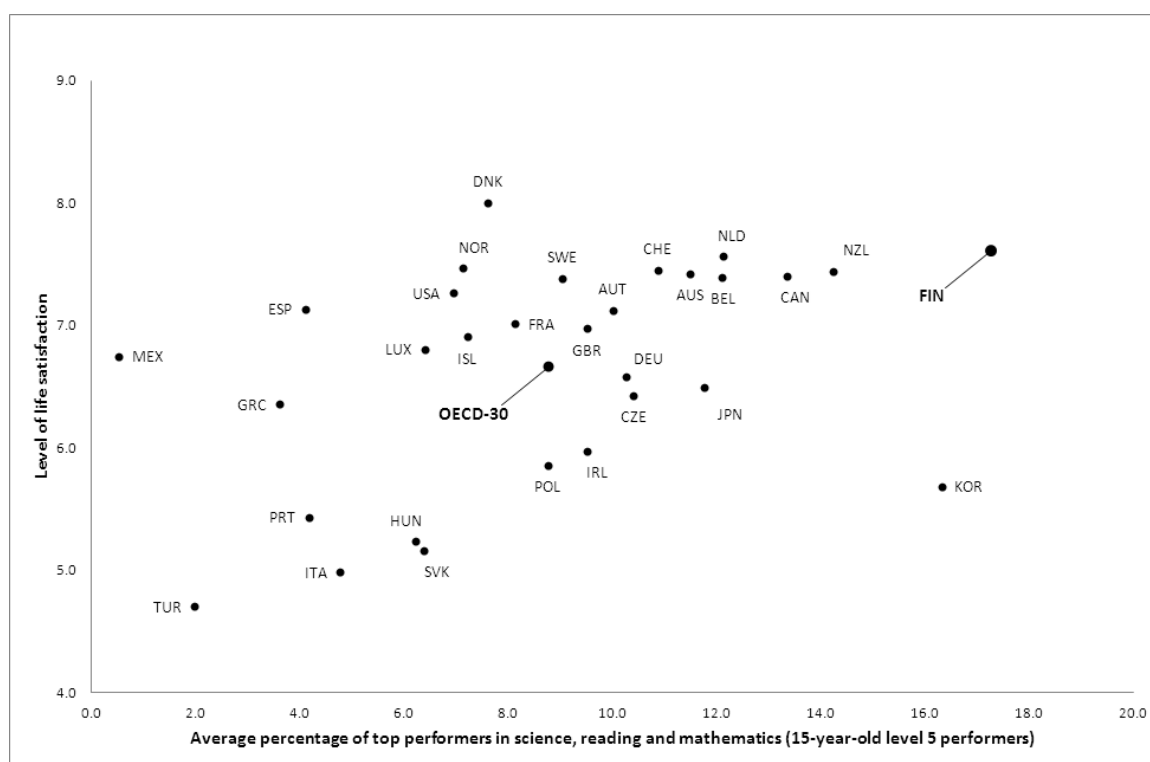
17. This document sets out the key issues identified by the OECD's Public Governance Review of Finland. The purpose of this document is to provide material for the Public Governance Committee's discussion at its Spring 2010 session, and to raise issues for discussion on how Finland – along with other OECD countries – can better adapt its public administration to meet future national and global challenges.

Key Issues for Discussion

1. The sustainability of the Nordic Model: Strategic agility is needed to respond to complex and fast changing future challenges

18. A significant characteristic of Nordic countries has been the ability to successfully combine openness to globalisation and collective risk sharing in a mutually supportive and interconnected way. Whilst globalisation offers numerous beneficial opportunities, it also entails many unpredictable risks and threats, such as the effects of increased factor mobility and the extent of layoffs and off-shoring activities. These new risks and threats put pressure on labour markets and social safety nets. In order to counterbalance the negative effects of these new challenges, Nordic countries have responded by intensifying risk sharing through collective means. The welfare state and labour market institutions work in conjunction to guarantee a Nordic type of 'social contract', where in exchange for a strong public sector, a large share of national income is absorbed and redistributed. Both general government revenue and expenditure as a percentage of GDP are significantly higher in Nordic countries compared to the average of other OECD countries (15 and 6.5 percentage points higher respectively in 2006). Nordic economies, compared within the OECD, are amongst the top performers. However, what distinguishes Nordic countries from other OECD countries is their capacity to score well overall in terms of societal outcome indicators. Finland ranks second best overall (in equal position with Australia and Sweden, behind Norway) in terms of eight headline social indicators identified by the OECD.² Performance in education and life satisfaction are examples of societal indicators where Finland ranks the strongest within the OECD (see Figure 1).

Figure 1 – Examples of societal indicators: education performance and life satisfaction, 2006.

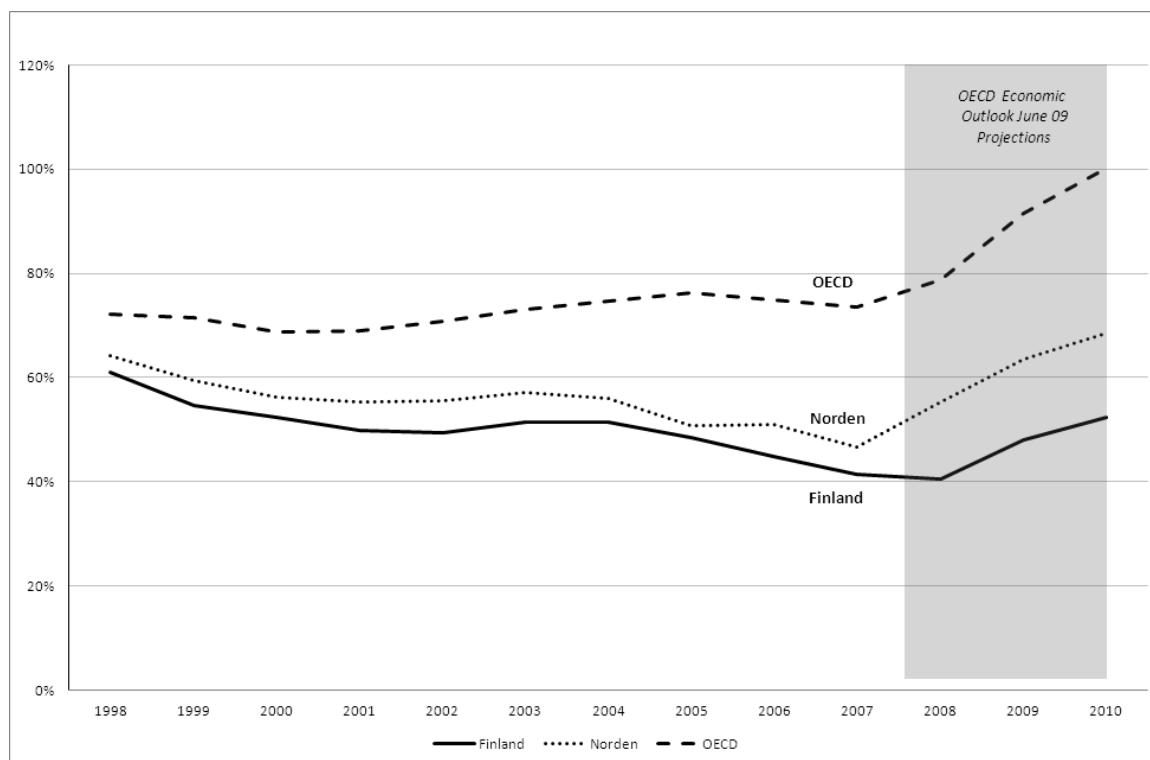


Source: OECD PISA 2006 database and World Gallup Survey 2006

19. Throughout the 2000s, Finland and the other Nordic countries have been successful in benefiting from the opportunities of globalisation and containing the spread of risks and threats to the social contract. However, the recent combination of the global financial crisis with demographic developments means that, now more than ever, the instruments and policies in place to maintain the social contract in Finland need to be re-evaluated in order to maintain quality and citizen satisfaction at a lower cost.

1.1 Despite sound fiscal management, the longer-term demographic outlook requires continued improvement of the public administration to maintain strong societal gains³

20. Finland entered into the current economic crisis with a relatively strong fiscal position. In comparison to other OECD countries, however, its economy has deteriorated considerably since the winter of 2008-09, and is still adjusting to international and domestic shocks as a result of the global economic crisis. The ability of Finland to adapt to a changing economic environment, as noted during the recession of the early 1990s, and a tradition of fiscal responsibility have put Finland in a good position going into the economic down-turn: 1) Finland has had sufficient budget margins to introduce a fiscal stimulus package equalling 1.7 per cent of GDP; and 2) while the central government's finances will weaken in 2009 and 2010 – public debt⁴ is expected to increase by 29 per cent between 2008 and 2010, raising from 40.6 per cent of GDP in to 52.4 per cent of GDP – Finland's level of public debt is still relatively low compared to other OECD countries, where the OECD average is expected to increase from 78.7 per cent of GDP to 100.2 per cent of GDP between 2008 and 2010 (see Figure 2). It is therefore arguable that Finland will have relatively more room for discretionary fiscal stimulus in response to the pressures of the economic and financial crisis compared to most OECD countries.⁵

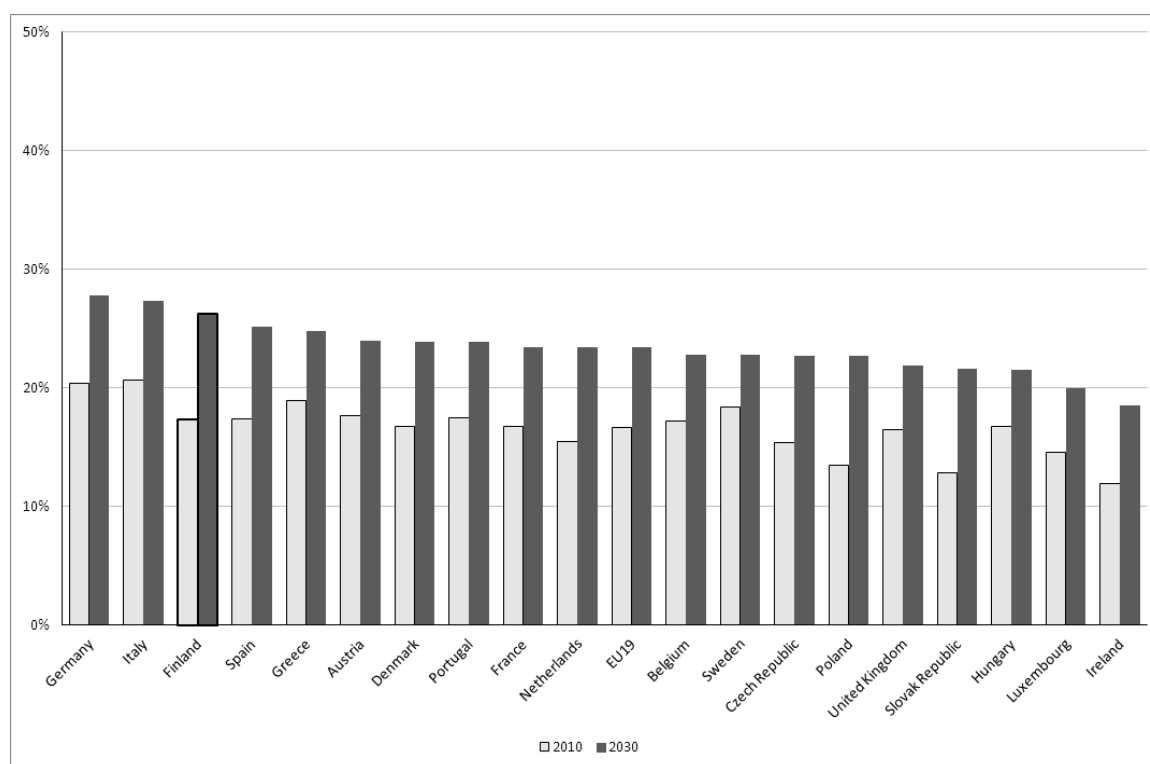
Figure 2 – Public debt: General government gross financial liabilities, as % of nominal GDP (1998-2010)

(Source: OECD (2009) Economic Outlook 85. June)

Note: "Norden" = Denmark, Iceland, Finland, Norway and Sweden

21. In addition to the current economic situation, however, Finland is facing an escalating financial burden and critical workforce capacity issues as a result of an ageing population. For the period 2010-2030, the old-age dependency ratio⁶ in Finland is projected to grow faster than the average of the 19 OECD countries which are members of the EU with a 51 per cent increase from 17.3 per cent of the total population over 65 years of age to 26.2 per cent, compared to an expected 23.4 per cent overall average in 2030 for the 19 OECD countries.⁷ (see Figure 3) In Finland, the working age population will start shrinking as early as 2010, and by 2050 is projected to decrease by 260,000 at the same time as the number of people aged over 65 will grow more than 700,000. The ageing of the population will lead to an increasing demand for public services as the workforce shrinks and there are fewer taxpayers to support current levels of service, resulting in a large financial burden and expenditure pressures that will need to be overcome in coming years. The government estimates that in order to meet the growing service needs of the expanding elderly population, staff numbers in municipal health care and social service provision will need to be increased by 4,000 annually.⁸

Figure 3 – Ratio of population aged 65 years and over to the total population in OECD EU member countries, 2010 & 2030.



Source: OECD Factbook 2009

1.2 The public administration increasingly needs to work together in order to strike a balance between limiting public service costs and maintaining equitable access

22. The structure of the Finnish public administration is characterised by strong independent ministries and agencies in the state administration, and autonomous municipalities. This is driven by the Constitution, which provides the legal mandate for autonomy and equality in Finnish society and which has a strong influence on the role of government, policy responses and the delivery of services to citizens. Finns have a traditional trust in the state level of government, but have a preference for control of everyday functions (such as the delivery of basic services) to be located at the local/community level. In the past, this approach has been successful, but now due to demographic and economic circumstances, municipalities are being increasingly challenged to meet citizen expectations for service delivery proximity and access, on the one hand, and the need for service delivery efficiency and equality, on the other.

23. Local governments tend to be more adaptive to local circumstances and preferences, whereas national governments are more focused on ensuring common access and levels of service quality for all citizens. The structure of the Finnish state (*i.e.*, decentralised responsibilities to local authorities and strong state ministry silos), however, often creates a barrier to horizontal and multi-level working relationships.

24. While reforms are currently in place to address these challenges, they have oftentimes become entangled in issues of local independence. While respecting municipal independence, a key challenge for the government is to find new ways to work across levels of government and with other stakeholders in order to maintain citizen-centric service delivery, while reducing costs through innovation and improved economies of scale. Finland's economic success and international competitiveness into the future depend

on its ability to commit to and implement whole-of-society responses to these challenges in a coherent way. This will require the ability to promote a common understanding of the challenges and available solutions at a societal level.

1.3 Strong governance arrangements instil stability in public administration, but at the price of greater agility

25. Finns are well aware of the need for strategic change and have a long history of innovation and renewal. In the public sector, however, historical and traditional values and the design of administrative arrangements can still present a barrier to implementing change, and therefore to public sector innovation. Finland's Nordic culture and administrative system co-exist with institutional arrangements formed in response to the period of Russian rule, forming a distinctive autonomous entity. Based on this history, Finnish identity can be best understood as being defined by its geopolitical position through history, balanced between the relative individualism of the West (Scandinavian model) and responses to the collectiveness of the East (Russia). The influence of the Swedish and Russian rule periods has not only significantly shaped Finland's political system, but also instilled a sense of formalism and legalism which still permeates social, business and political affairs.

26. When Finland became independent in 1917, nearly all of the structures required for a self-dependent political system were in place, for example: local communities with self-government, state regional government, a national legislature, a state government, courts of law and political parties. The only key missing structure was a Head of State. A civil war in 1917 eventually led to the adoption of a mixed and flexible Constitution in 1919, which instituted a presidential system of government. The Finnish Constitution was flexible enough to help maintain relative political stability for over eighty years, but forced considerable strains to compromise dualities such as rigidity and flexibility, authoritarianism and pluralism, centralisation and decentralisation. Finland today stands as a highly consensual political community, with strong influence from the Nordic concept of self-government and rule of law.

27. Finland's finely tuned and highly successful processes to manage public sector governance are adapted to the context of the coalition government model. Decisions are made based on political consensus obtained through compensatory negotiations rather than through a clear dominant party policy. The results, which tend to be enshrined in policy agreements, reflect political consensus, but it may be difficult to move away from them when circumstances dictate. For example, while the current strategic planning framework, as represented by the Government Programme, has provided a strong framework for achieving outcomes in relatively stable economic and policy environments, it lacks flexibility and agility. The four-year term of the Government Programme makes it difficult for the government to change direction in reaction to changing environments and priorities. While there is a mid-term review of the Government Programme, it appears that this is used more as a review to confirm progress in the achievement of the Government Programme rather than an external scan to determine if the Programme needs to be modified – thus reducing the ability for the government and public administration to be strategically agile. This form of political agreement may also preserve rather than resolve tensions in political approaches, such as between municipal and regional reforms.

28. The resulting sustainable, but incremental, changes in capacity have provided Finland's coalition governments with a high degree of stability and effectiveness. The confidence and pride of Finns in their government is based on the security that these management systems have afforded over many years. However, as capacity reaches its boundaries when the speed of contextual changes increase, they can also limit agility, preventing the administration from being able to easily shift resources and focus. The predictability of these processes, which is an important factor in their strength, also appears to limit the opportunity for change and course correction in the face of changing societal and international factors, and for engagement which can be an important step for innovation.

1.4 Greater strategic agility is needed

29. The Finnish Government is aware of the pressing need to adapt to the increasingly global and complex environment, and has put in place reforms at all levels of government to help shore up the public administration, including in the areas of local and regional government, performance management, e-government, regulation, policy planning and co-ordination. Failure to adapt could lead to a decline of the Nordic welfare model, requiring higher taxes to sustain the high quality public services that Finns enjoy (or, worse yet, decreased services in spite of higher taxes).

30. To meet the aforementioned challenges, the government needs a public administration that is flexible, responsive and agile – strategically agile. Strategic agility in a public sector context entails the capacity for, and commitment to, strategic insight, collective engagement and resource flexibility. (See Box 1) In a fast changing world and society, the public sector needs to be able to change policy directions quickly and effectively as circumstances demand. This also means being able to distinguish when action is most appropriate at a whole-of-government level – and therefore requires central action or co-ordination – and when agility is best obtained at a devolved level in order to achieve greater responsiveness. The Finnish Government appears to be seeking greater agility; however, in the absence of clearly articulated outcomes, the public administration has struggled to deliver in more recent times.

Box 1. Building strategic agility: some key concepts

In a fast changing world and society, the public sector needs to be able to change policy directions quickly and effectively as circumstances demand. This requires **strategic agility** which is the ability of the government and public administration to anticipate and flexibly respond to increasingly complex policy challenges, and to determine at what level action is needed (*i.e.*, at a whole-of-government level or at a devolved local or sector level).

The OECD has identified three necessary components for developing strategic agility:

- **Strategic insight** is the ability to understand and balance government values, societal preferences, current and future costs and benefits, and expert knowledge and analysis, and to use this understanding coherently for planning, objective-setting, decision-making, and prioritisation.
- **Collective commitment** is adherence and commitment to a common vision and set of overall objectives, and their use to guide one’s individual work, as well as the co-ordination and collaboration with other actors (both inside and outside of government and across levels of government) where needed to achieve goals collectively.
- **Resource flexibility** is the ability to move resources (personnel and financial) to changing priorities if and as needed; to identify and promote innovative ways to maximise the results of resources used; and to increase efficiencies and productivity both for fiscal consolidation and for reinvestment in more effective public policies and services.

2. Strategic insight requires planning and decision-making based on flexible and continuously-updated data, analysis and consultation

31. A key element to achieving strategic agility is the capacity for governments and public administrations to have strategic insight. In the public sector context, strategic insight requires the capacity and capability for conducting dynamic (versus static) and inter-related long- and short-term strategic planning, based on a whole-of-government vision, understanding and knowledge. Achieving strategic insight therefore depends on the ability of the government to actively seek and consolidate the experience and expertise of multiple stakeholders in the development of a strategic vision and the operationalisation of that vision through the development of strategic planning frameworks.

32. It is important to distinguish between the type of planning and/or decision-making required in order to determine the most appropriate input for achieving strategic insight. The identification of long-term and medium-term priorities, for example, can both benefit from citizen engagement and data analysis, but very long-term events may be unpredictable and ‘discontinuous’, *i.e.*, not based on historical patterns, and so require other types of scenario planning in order to prepare for the future. In addition, consultation may not always be appropriate for short-term decision-making because of the need for rapid responses or because of the sensitivity of the topic. In such cases, however, it is all the more important that decision-makers have general information on hand about citizen preferences. (See Table 1)

Table 1. Analysis Horizons: Strategic and decision-making needs by planning timeframe

Analytical Needs	Characteristics	Requirements	Examples
Foresight (Long-term: >10 years)	Anticipation of & preparation for both foreseeable & disruptive / ‘discontinuous’ trends; including future costs in today’s decisions	Continuous scanning & consultation; pattern recognition; analysis of ‘weak signals’; futures studies; consensual views?	Futures Reporting, <i>e.g.</i> , on climate change; horizon scanning; long-term budget estimates; scenario planning
Strategic Planning (Medium-term: 3-10 years)	Anticipation of & preparation for foreseeable changes; prioritisation; including future costs in today’s decisions; risk management	Analysis of historical & trend data; comparable information & analysis across government; consultation on values & choices	Government Programme; medium-term budget frameworks; workforce planning; spatial & capital investment planning; innovation strategies
Decision-making (Short-term: 1-2 years)	Responsiveness; rapidity; accountability; ability to determine at what level decisions need to be taken	Quick access to relevant information & analysis; capacity for reallocation; overview of stakeholder preferences	Executive action; annual & mid-term budgets; crisis response

2.1 Evidence-based decision-making

33. Evidence-based decision-making feeds strategic insight by examining and measuring the likely benefits, costs and effects of government decisions, based on wide consultation and research. It helps to ensure that all possible scenarios have been taken into consideration, increases the transparency of government decision-making, provides a ‘reality check’ on the cost of government objectives, and gives governments the tools to help prioritise between competing objectives.

34. While Finland does have frameworks in place that contribute to the achievement of an evidence-based decision-making culture – such as research bodies, some consultation with public stakeholders, the use of Regulatory Impact Assessment, and ICT investment business case requirements – these practices do not necessarily translate into a coherent organisational-wide culture and ethos where evidence-based decision-making is a systemic and ingrained way of working in the public administration. In part, this may be because much of the preparatory decision-making processes at the state level take place through informal discussions where there is no standard requirement for the use of business cases, cost benefit analysis, comparative analyses, and wide-consultation on impacts.

35. Informal decision-making processes in the public administration are an important aspect of what makes the Finnish public sector work, and as such, are key to the fast exchange of information and

horizontal communication. The process is by definition, however, not transparent, and the results can be locked into political agreements that leave the government little room for manoeuvre. The increased use of analysis to underpin political policy discussions would serve not only to make them more transparent and open, but would also clarify impacts, trade-offs and consequences in a way provides the tools for dialogue on how decisions could be adjusted, where necessary, rather than to wait for the next political cycle.

36. Evidence-based decision-making also supports the implementation and legitimacy of policies and major government reforms, thereby supporting the realisation of the Government Programme. There has not been any clear business cases⁹ communicated to the rest of the public administration for major initiatives such as the sub-national PARAs and ALKU reforms (see Box 3 on page 31), or for the roll-out of Shared Service Centres. As a result, there are no clear targets and/or success indicators by which to evaluate and to help communicate the rationale for these reforms.

37. Strategic insight does not automatically result from amassing more evidence or even from improving the frequency and quality of analysis, but a clear and transparent flow of information and analysis from the public administration to political and administrative decision-makers can help to inform discussions, clarify options. This is of particular importance for the public administration as Finland does not have a tradition of political think tanks associated with political parties to generate and test public policies.

38. Increasing the use of, and expectation for, evidence-based policy making will require consultation with external experts and stakeholders to harness innovative thinking and strategic insights. This also serves to bring in information that is not necessarily available to the public administration, in particular on local impacts. This way of working requires a change in the relationship between government and citizens to one of consultation and collaboration.

2.2 Strategic insight requires citizen engagement in policy making as well as for service delivery

39. The use of evidence-based decision-making requires the public administration to have an active and purposeful dialogue with a wide variety of stakeholders, to analyse those insights in the context of the government's mandate, and to provide coherent *ex ante* advice to help inform government decision-making and prioritisation. The active relationship between citizens and governments has been expanding in OECD countries, with citizens participating as partners during the design, delivery and evaluation of government services. As policy issues become ever more complex, and start threatening societal values and way of life (such as the Nordic model in Finland) governments can no longer address these issues by working alone. Partnerships are needed with citizens, business, civil society organisations (CSOs) and other stakeholders to achieve whole-of-society objectives when tackling national and global policy problems. Engaging citizens and allowing them to actively participate with government in addressing these issues increases opportunities for strategic insight.

40. Openness is an underlying value in Finnish administration. This attitude is reflected in the structure of the Finnish administration, in the strong self-government of municipalities, in the fact that decision-making power is close to citizens, and that participation has a strong basis in legislation. However, the Finns themselves note that interest in participation seems to be periodic. Over the last 10 years, interest in participation has increased in response to decreasing voting percentages, criticism directed at politicians and political parties and the shunning of party political activities. Concerns regarding this led to discussions amongst the government which emphasised the increasing need to strengthen the role of civil society in Finland. As a result, during the late 1990s the Finnish public administration undertook a number of projects and development initiatives aiming to increase the role of civil society in defining social matters and public services. Citizen participation was one of the first horizontal Policy Programmes – the Civil Participation Programme – in 2003 where the government's emphasis shifted from information to consultation and participation.

41. Citizen involvement policy in Finland remains weak despite good will and efforts in some parts of the Finnish national public sector. The value of engaging citizens and having them participate in the policy cycle, from identification of the policy issue, the development and implementation of a solution and the sharing of responsibility for achieving outcomes are not widely recognised in Finland. While there is still quite some political attention for improving citizens' involvement, there is a worry that if this support decreases, interest in citizen involvement policy will fade away, as this way of working is not usual business in the public administration, in particular the state administration. This will have the consequence of a regression in the capacity of the public administration and government to achieve strategic insight.

42. There are differing views as to who is responsible for citizen engagement in Finland, as well as the derivable benefits from investing in such practices. Individual citizen participation and engagement seems to occur more at the municipal level and less at the state administration and political levels. Some state officials feel that it is more appropriate for the municipal level to have responsibility for citizen engagement, given its proximity to citizens. With the reliance on municipalities to deliver basic services, there is a general feeling that citizen participation and engagement only needs to occur at this level. However, with decentralised power structures, it is essential that the state have a strong steering capacity and capacity for strategic insight. As such, the state has an equally compelling need to consult with and hear the ideas and needs of citizens so that it can formulate whole-of-society approaches to the ever increasing complex policy problems arising today and into the future.

43. A key factor in the perceived distance between the state and the citizen is a lack of citizen consultation in the political process and the state level of administration. This issue was raised both by municipalities and also by CSOs who suggest that neither the state administration nor government are in tune with the needs of citizens and are not taking these into account in the development of national policies and legislation. As such, it has been suggested that staff employed in the state government need to learn how things work on the ground at the local level; that there needs to be knowledge transfer between experiences in the municipalities and the state. Direct contact with citizens for consultation and participation are also needed at the state level.

44. Some observers feel that there is an overemphasis on e-participation and e-democracy as methods for engaging and consulting with citizens. Electronic methods appear to have been pushed as a way to get around traditional Finnish reluctance when it comes to direct verbal public engagement. On the other hand, engagement appears to work best in face-to-face contact in the Kainuu region where health and social services officers hold information evenings in local communities. At the state level, Kela, the Social Insurance Institution, is also providing a good example of engaging citizens through a number of customer service monitoring mechanisms, including by holding working groups with stakeholders. Another challenge for the state administration's engagement and participation is the changing policy environment in response to global challenges. Some feel that it is becoming more difficult to engage and lobby government and to be consulted due to the changing nature of policy issues which are becoming more horizontal / whole-of-government as the government and administration are not effectively working in this way and do not offer opportunities for horizontal / whole-of-government consultation.

45. While the engagement of representative bodies at the state level does take place, this may be declining. Where once CSOs and unions were consulted prior to government decisions and then during the development of the programmes, in recent years they claim that they are now only consulted in the latter case and have less influence than before, with negative outcomes for citizens. For example, the unions consider that because they were involved early in the development of the PARAs reforms, they were able to secure a 5 year moratorium on retrenchments for staff, but that under the ALKU reforms, they were involved later in the process and have not been able to secure similar benefits. The decline in influence may also be due to the short timeframes provided by the state when seeking input or comment.

46. In order for consultation to be a useful input into decision-making, it needs to be based on informed discussion about the expected benefits and costs of action, as well as of inaction. As discussed in the introduction, the sustainability of not just the public sector, but also of elements of the current way of life in Finland, is at stake. Finnish policymakers have access to long-term budgetary projections, but this information is not easily available to citizens and other stakeholders in ways that can help to bring costs and benefits for future generations into today's policy discussions. Doing so would help better engage citizens and help them understand (and participate in) the difficult choices that are currently facing policymakers.

47. A continued focus on citizen participation should be at the centre of a shift towards a closer relationship between citizens and businesses and the state. It may be that the stakes for stronger citizen engagement need to be more clearly identified and discussed within the public administration and with parliament and civil society in order to develop a consensus about the direction of citizen engagement and the means to further advance such efforts (where citizen engagement includes interaction with both the general public and businesses and CSOs). Citizens want feedback on what happens to their input of ideas. Currently the state is unable to provide this to those citizens who actively seek to participate. The impact of whole-of-government agendas on consultation and engagement with the citizenry will be critical to ensuring greater trust in government and better outcomes through enhanced strategic insight.

2.3 The scope of foresight reporting could be broadened to enhance strategic insight

48. Strategic foresight reporting helps governments to scan ahead to identify future risks and opportunities as a means of prioritising and focusing government policies, and is an essential component of achieving strategic insight. It is worth noting that government foresight reporting has been in practice in Finland since 1993, when the first horizontal Government Foresight Report was tabled in the Finnish Parliament. This initial report presented views on major future developments and optional scenarios for Finland posited in the context of future research and the then-government's priorities; and provided a plan for the kind of future society that the government was seeking to establish through its actions when in office.¹⁰ Since then, a horizontal Government Foresight Report has been submitted to parliament during every electoral period. However, the scope of this reporting has shifted from a whole-of-society approach to a more narrow focus on a single, albeit still cross-cutting, issue area (the current Government Foresight Report is focused on climate and energy policy). This narrowing of focus reduces the ability of the government and the public administration to scan and report on the wider policy challenges and opportunities on the horizon and impacts on the government's capacity for strategic insight. Rather than narrowing the focus, the global financial crisis demonstrates that governments should regularly look beyond individual issues to include the experience and expertise of a wider group of stakeholders.

49. In addition to the horizontal Government Foresight Report, the public administration provides vertical sector futures reports at the end of each term of government for consideration by parliament in the preparation of a new Government Programme. In many respects, this type of foresight reporting is quite advanced, but more could be done to strengthen the information in this reporting. There is further opportunity, for example, to consolidate the vertical sector futures reports at the central level before they are provided to parliament and for further analysis to be undertaken to map issues at a whole-of-government level. Thus, the parliament could then benefit from a horizontal whole-of-government futures report (corresponding to the perspective of its own Futures Committee), accompanied by the supporting vertical sector futures reports, providing a wider scope of vertical and horizontal reporting of current and future risks and opportunities.

50. Futures reporting, as it currently exists, is a relatively work-intensive process. Some of this is necessary as it helps to create the space to think strategically beyond immediate deliverables. The government could complement this work, however, by making better use of its existing data to identify

patterns that merit additional follow-up and research, and trends that extend beyond the scope of a single sector. For example, work by the Ministry of Foreign Affairs in identifying ‘weak signals’ from field reports, helps it to identify emerging issues from raw informational material for enabling anticipatory action.

51. Futures or foresight reporting provides a useful tool for the development of a shared forward vision with which to focus current and future government decision-making. It is not clear, however, how different sets of futures work in universities and in government agencies fit together, if at all. While they need not form one single set of work, greater awareness and more explicit reference to the different sets of futures work (including opposing scenarios) would help provide a common basis for discussion and debate.

52. Futures reporting can also help build both horizontal and vertical coherence in the development and implementation of the government’s agenda. An open discussion on the future of the sub-national sector, for example, could build ownership of municipal and regional reforms. The key to developing a shared vision is through the active consultation, participation and engagement of society’s actors in the development of that vision – which requires a culture of open and transparent government. This involves embedding a culture of open, responsive and transparent government at all levels of public administration. The values and standards by which public servants work and measure performance require ‘updating’ to match the changes being brought about by complex policy challenges and the expectations of citizens.

53. Finally, the follow-up and feedback provided on futures reports could be used to help highlight the importance of this type of strategic planning to government policy-making. While not all issues raised will rise to the government’s agenda, feedback can help sharpen the strategic thinking capacity of ministries and individual workers in order to improve insights of future reports and ensure that ministries invest sufficient time and effort into the process rather than treating it as a checkbox exercise.

2.4 Strategic insight provides the tools to create a strategic vision

54. Strategic insight provides the basis for governments to create a strategic vision for the country and for the public administration that is based on available information, input from citizens, businesses and civil society and which is mindful of future opportunities and risks. If communicated effectively, strategic vision can be a powerful tool for providing a clear strategic direction for government and the public administration.

55. Finland has very good practices in place to communicate the government vision. The government’s strategic vision for the term of government is communicated through the Government Programme which is a plan of action agreed by the parties participating in the government and sets out the main tasks facing the incoming administration. Included in the Government Programme are horizontal Policy Programmes which were added in 2003 as a means of better identifying the horizontal priorities of the government. Following from the Government Programme is the Government Strategy Document, which is the government’s annual plan in which outcome targets on Policy Programmes and other issues important for the government are presented. It contains indicators used in monitoring the implementation of the Government Programme.

56. While the Finns have a strong Government Programme, those interviewed by the OECD indicated that the strategic vision of the government was not sufficiently clear and that it was unclear how some programmes related or were linked together (such as the municipal and regional reforms which are discussed later in this report). Strategic insight alone will not provide governments with the flexibility and agility needed to adapt to the changing and increasingly complex policy environment.

3. Strategic agility requires the collective commitment of the public administration to the achievement of strategic outcomes

57. Adherence and commitment to a common vision provides a framework to allow all societal actors to identify the subsidiary actions needed to realise it. In the public sector context, this is best achieved by aligning incentives and values around the overall strategic vision. This requires linking organisational and individual performance management goals and objectives to strategic objectives, accompanied by strong leadership at the centre of government and within organisations in order to change the way public sector staff think about and approach their work.

3.1 The government's whole-of-government vision is not being realised at the operational level

58. While the Finnish Government has put much effort into strategic planning, its ability for collective commitment to a shared vision is hampered by a lack of horizontal collaboration in the development of and translation of strategic priorities. While the Government Programme details the government's strategic sector and horizontal policy priorities, there is no clear business case for inter-Ministerial co-ordination and collaboration on policy development, and therefore horizontal priorities do not seem to flow down to clear incentives at the individual level to work in a more joined-up fashion. The 'Action Plans', developed within each ministry, which should cascade from the Government Strategy Document, do not necessarily provide the required level of detail on the policy priorities, to allow divisions and individual staff within ministries to elaborate on how they will meet the objectives or work in a collaborative and holistic way. Perhaps most importantly, the strategic steering and budget allocation systems, while aligned in terms of timing, are not substantively aligned and so there is no budgetary incentive to work horizontally across sectors (this is further discussed under the following section on 'Resource Flexibility').

59. A silo-based approach to policy development and implementation is one of the most significant problems in the Finnish public administration. A continuation of silo-based thinking and ways of working will only further limit the public administration's ability to gain flexibility in responding to the needs of government and in harnessing a collective momentum to commit as a whole to the implementation of the government's agenda. The lack of horizontal co-ordination and collaboration is related to a number of factors, including leadership priorities, lack of mobility across and outside of the state administration, and an emphasis on worker specialisation. In addition, given historical and traditional ways of working, staff within ministries have not been provided the opportunities to see how horizontal co-operation will benefit them, and so they lack incentives to collaborate (or sanctions for non-collaboration). A major lever for horizontal collaboration is to link performance management with strategic planning frameworks. This strengthens organisational and individual commitment to a shared vision and provides the accountability and incentive framework for working horizontally.

3.2 Performance management does not provide the incentive for collective commitment to whole-of-government outcomes

60. The Finnish state performance management system, introduced over several years during the early 1990s in response to the Nordic economic crisis, follows a rational structure in which state ministries and agencies prepare performance management agreements to achieve individual portfolio objectives. These agreements are based on ministerial Action Plans which, in turn, cascade from the Government Strategy Document based on the Government Programme. In general, ministries and agencies have a clear performance dialogue relationship in place, and agencies appear to be putting their performance agreements into action within their organisations through a filtering down of performance objectives within their organisations from senior management through to junior staff. As such, an effectively working performance management framework is a key component of an overall strategy to gain public administration commitment to strategic planning objectives. However, to achieve collective commitment

through performance management, performance objectives need to start at the top level of the public administration with clear links to shared societal outcomes, and cascade through the administration.

61. Despite this clear framework, however, the state performance management system seems to fall short of supporting an overall strategic focus that connects agency performance objectives to the achievement of societal outcomes. Ministry and agency officials report that performance measures tend to focus on detailed process measures rather than strategic actions that support the Government Programme. At the organisational level, there seem to be few, if any, consequences for failure to meet strategic objectives. This shortfall appears to stem from four main reasons: 1) lack of clear, strategic whole-of-society vision communicated by government; 2) difficulty in developing indicators that clearly link back to strategic whole-of-society objectives; 3) insufficient prioritisation of overall objectives; and 4) lack of real accountability, in particular for shared strategic objectives.

62. The Finnish National Audit Office (NAO) in its inspection reports has repeatedly noted shortcomings in performance management in areas such as performance information for government agencies and information on the effectiveness of grants and other government transfers. Furthermore, the Parliamentary Audit Committee has largely reported (in 2008) on the inadequate functionality of governing by information in social and healthcare services. It is of note that the Ministry of Finance has recently commenced a major review of the performance management system at the state level.

63. As in every country, the development of performance indicators is a core challenge that takes time. Performance management was slow to take-off in Finland given the aftermath of the 1990s recession and the period of transition when Finland joined the European Union. Measuring the performance of ministries has also been difficult. Interviews with ministry staff suggest that they find it challenging to identify appropriate indicators at the organisational level because policy work is difficult to measure and because they have difficulty linking their own concrete objectives to more abstract government priorities. This is exacerbated by the lack of a clear strategic whole-of-society vision communicated by government. As such, ministries struggle to develop indicators to achieve unclear outcomes, and performance discussions with agencies seem to focus on process indicators rather than contributions to overall objectives, demonstrating greater comfort with those indicators that are most easily measurable. Achieving commitment to shared whole-of-society objectives requires individual performance management plans to contain shared outcomes. This way of working needs to start with permanent State Secretaries and filter down through the administration, but also supported by redefining the role of public servants to work collaboratively and co-operatively as a means of strengthening service to the whole-of-government rather than limited to one ministry or agency.

64. At the agency level, staff report that they would like to manage to more strategic objectives, but that current guidance is too general to allow them to establish links between their work and overall objectives. They have suggested that they would like greater clarity regarding the government's priorities and the expectations of their portfolio ministries so that they can clearly feed this guidance into their own internal performance management processes. Ministries respond that prioritisation becomes quite difficult given the ever increasing number of mandates from successive strategy documents. They need to be given the ability to prioritise by not only identifying key areas for work, but also lower priority areas that can be dropped in the context of fixed resources.

65. Another reason for insufficient linkages to strategic objectives is the lack of connection between the targets set with state ministries and the ability of agencies to negotiate resources allocated to achieve these targets. The fact that performance and budgeting are undertaken in separate departments within the Ministry of Finance reinforces the shortage of linkages across these two critical areas. The Ministry of Finance's perceived preoccupation with fiscal objectives could perhaps be tempered by better incorporating the work of the Public Management Department, thereby increasing credibility with

ministries and agencies and improving linkages between performance target setting and budget allocations. Such an approach, however, underscores the importance of consultation with ministries and agencies, as part of a performance dialogue, rather than simply as a top-down allocation exercise.

66. In widening the scope of performance management, the government and the Ministry of Finance have had great difficulties in measuring municipal productivity and efficiency. State officials have also raised concern regarding the quality of performance information received from municipalities and suggest that this could also be improved. While this is a general challenge, the diffuse governance system of public service production has made data collection on performance historically late, inaccurate, unreliable and incomplete. As public service production is managed both at the state and local level, responsibility for data quality is dispersed. While there are periodic studies which provide municipal performance rankings for primary and high school education and health services, there is a need for more regular performance data to be published and communicated to the central government as well as to other municipalities and the citizens as a means to promote 'bench learning' and the sharing of good practices and yardstick competition.

67. Looking to the future, Finland shares the challenge with other OECD countries with how to use its performance management system to support accountability for cross-cutting priorities rather than to allow it to reinforce bureaucratic silos. There is a need for better horizontal and vertical co-operation in Finland when planning and implementing joint objectives and indicators for agencies reporting to multiple ministries. The real benefit of improved horizontal working across government is the opportunity to develop and achieve societal objectives and outcomes. However, this way of working requires a change in the way the business of government has traditionally been managed in Finland. The government, through its Findicator initiative, is beginning to look at how it can set indicators for desired societal outcomes and communicate these both to the public administration and to the broader society. The real challenge is how to translate these broad strategic outcomes into tangible strategic objectives for each ministry and filtered down to state agencies and municipalities. This way of working should be systemic and included in all individual performance agreements from senior management to junior staff – where senior staff can be measured on actual collaboration across portfolios and junior staff on showing awareness in their daily work of the need for collaboration. In this way, an effective performance management framework aligned to strategic planning can have a strong influence on the way public sector employees work and eventually on the way they approach that work which is a key element in achieving collective commitment.

3.3 Institutionalising horizontal co-ordination and collaboration will require changing traditional ways of thinking and working

68. Given Finland's past performance, there is no doubt that the public administration will continue to successfully implement the government's agenda in the silo sector ministries. However, the challenge continues to be the ability to harness horizontal collaboration and co-ordination in the development and implementation of the government's agenda. Despite many efforts to compel this way of working (such as the introduction of the horizontal Policy Programmes, ministry mergers and detailed co-ordination and collaboration frameworks for certain policy issues), formal horizontal co-ordination and collaboration is not a natural way of working for the Finnish public administration (or in other countries, for that matter). Rather the Finnish public administration uses an informal system of co-ordination to gain consensus for decision-making. In a changing environment which increasingly requires whole-of-government policy responses, Finland must change traditional ways of thinking and working of its public administration based on sector silos to a culture of open collaboration and co-ordination to support collective commitment. This will require supporting values of individual risk-taking and entrepreneurship, supported by the collective achievement of shared goals.

69. In a public sector context, horizontal working across ministries, departments, agencies and levels of government in a co-ordinated, co-operative and collaborative manner is necessary not only in the strategic development of government policies, but also in the implementation of a whole-of-government agenda. Coherence in vertical and horizontal co-ordination and collaboration in the implementation of the government's strategic agenda improves the public sector's ability both to respond to complicated policy challenges, such as climate change, ageing populations and emergency management responses, which do not neatly fit within organisational competencies, and to help achieve efficiencies across organisational boundaries.

70. While the Policy Programmes have been helpful in focusing the public administration's attention on sector co-ordination, the current arrangements do not enable the operationalisation of horizontal policies for desired outcomes. There is a need to move forward and achieve greater agility where every person in the system has the room to act within agreed parameters at all levels. The principle behind the Policy Programmes to achieve cross-sector horizontality is valid; however, the necessary incentives are not aligned. The Policy Programme is far away from service delivery and thus there needs to be a starting point for a cascade of plans to make it happen. While the structures are in place, there is a missing link between strategic objectives and operational measures.

71. Outside of the scope of the horizontal Policy Programmes, there are examples of where horizontal co-operation exists and is highly successful, but these are mainly in relation to policies where there is an impetus to come together and succeed at a national level such as in country defence and international forums like EU affairs. In these examples, horizontal working is achieved through a clearly defined working framework agreed by actors. For example, the Ministry of Defence is an excellent example of marshalling horizontal working relationships within the public administration and with external stakeholders through the co-ordination of the comprehensive society approach. The Ministry has responsibility for co-ordinating the cross-ministry and cross-society functions of society which are imperative at a time of war or crisis. This successful horizontal working arrangement is due to a combination of the strategic management of the approach by senior officials through the Security and Defence Committee (members include all non-political State Secretaries and representatives from the Defence portfolio); the specific identification of the comprehensive approach and need for collaboration in legislation; the critical nature of the work in the Defence portfolio and the rigid hierarchical working environment; and the genuine need to be prepared in times of war or crisis. However, despite the good examples of horizontality in action, the challenge for Finland will be how to achieve horizontal working across the whole-of-the public administration.

3.4 Achieving collective commitment by managing change through effective leadership

72. A key aspect of achieving collective commitment is to support change through to successful implementation. Effective leadership is a critical component for successful policy implementation and change management, and will be essential to achieving change in the culture of the Finnish public sector to integrate strategic and innovative thinking and horizontality into every day work. Leadership can be discussed at many levels: political/administrative interface; across the whole-of-the public administration through the centre of government; and at the individual level within ministries and agencies.

3.4.1 Leadership at the political/administrative interface

73. Democratic regimes often find themselves balancing two values that can be in some tension – fair and non-politically partisan public service delivery and, subject to the law, the responsiveness of public servants to the policies of the current executive. Managing the political/administrative interface is a key aspect of the tradeoffs that must be made. Because they are in the public eye, ministers are held responsible for the actions of their ministries and departments. However, in Finland, political State Secretaries are

being used as an interface between Ministers and the public administration which has changed the leadership dynamic and creating concerns regarding the politicisation of the public service.

74. The relationship between the political arm of government (including Ministers) and the public administration appears to be strained at times. This is not unique to Finland as the expectations, accountability and responsibilities of both political officials and the public administration are being tested in new ways across OECD countries. In the Finnish public administration, permanent State Secretaries are quite powerful due to the longevity of their service in individual state ministries. This leadership longevity can lead to claims that State Secretaries and their ministries are set in their ways and do not have the flexibility to change to new government agendas. As a result, some Ministers are using newly created political State Secretaries and increasing the number of political staffers. This is said to have created distance between Ministers and the bureaucracy and has started to create a 'separation of powers', so to speak, in the policy development processes and a lack of connectedness between the government and the public service. This can also impact on citizen participation and the use of evidence-based policy making to feed government decisions.

75. While the introduction of the political State Secretary has increased the visibility of the political interface it has also increased tension in the relationship between the government and public administration and it has been argued to have increased the politicisation of the public service as a whole. However, it should be noted that the role of political State Secretaries is still unclear and thus there is confusion over both the role and its relationship with the public administration. Clarifying roles and responsibilities would help, as would increasing the mobility of administrative State Secretaries to give them a broader view of the public administration and thus enhance their ability to serve Ministers.

76. Finally, the blurring of political involvement in the public administration is reinforced by Ministerial responsibility for ministries, in particular as Ministers represent different parties within a coalition government. This feeds politicisation of the public administration and reinforces stove pipes where the public administration is unable (even when willing) to act as a collective whole as each separate ministry acts as an independent organisation loyal to a Minister rather than as a whole working for the collective government of the day.

3.4.2 Leadership at the centre of government

77. Complex policy environments require a public administration that is configured so as to support and enable a common sense of purpose – from an overall vision down to specific operational objectives and actions. While institutions evolve and adapt over time, the faster the external environment changes, the more reflection is required on appropriate governance arrangements, how to achieve them, and their possible consequences. In a changing and more complex environment, policy challenges facing government today require collective commitment to achieving shared outcomes. In Finland, co-operation and collaboration across the public service on policy development and implementation will be critical to developing strategic insight and collective commitment to a shared strategic vision. Embedding the changes needed in Finland will require strong leadership from the central administration to create and manage interdependencies across the administration in the achievement of shared outcomes.

78. As noted above, when ministries have an interest in co-operation, they appear to work well together, but formal co-operation arrangements tend to follow a relatively intensive process that, by definition, can only be used for the highest priority issues. The management of EU affairs, for example, demonstrates the ability of the Finns to work together at the whole-of-government level, but also highlights the fact that, given the complexities of the coalition government and a traditional mindset, co-ordination and collaboration in a formal sense do not come naturally and has to be almost forced through the implementation of formalised structures and frameworks.

79. Rather than establishing rigid structures to enforce horizontality, the role of the centre could be strengthened to increase oversight and accountability of existing processes as a means of achieving a collective commitment across the Finnish public administration to working horizontally in achieving the government's agenda. It is noted that in a coalition government, the role of the Prime Minister is not as strong as in single party governments (like the United Kingdom or Australia, for example) but is rather of 'primus inter pares' (first among equals). However, this does not prevent central ministries within the public administration from displaying leadership and facilitating collective commitment to the achievement of a shared vision. However, this would be more achievable if incentives across the administration were aligned to encourage whole-of-government co-operation and collaboration and subtle changes to increase accountability for working in such a way. Aligning both individual and collective interests through performance management (as discussed earlier) provides incentives to achieve embedded collaboration and co-ordination across the administration.

80. Regardless of the system or time, however, there is a fundamental purpose and function of the centre and central agencies. In an environment of increasingly complex policy challenges, the role of the centre and central agencies is critical to co-ordinating policy responses that are collaborative and coherent. This does not mean that the centre should take over control of the development and implementation of policy responses by micro-managing, but that the centre has a key role in having the strategic oversight of the whole-of-the public administration and thus is well-positioned to bring the right actors and leaders together to co-ordinate their collaboration on the implementation of the government's strategic agenda.

81. The Prime Minister's Office has a key role to play in achieving collective commitment within the public administration for the operationalisation of the government's strategic vision. As the embodiment of the centre of government, it needs to play a greater role in steering and co-ordination of the public administration. For example, while it is responsible for the monitoring of the implementation of the Government Programme, this has been a passive role where ministries and agencies provide annual reports based on self assessments to the Unit. While, the Prime Minister's Office has a strategic, and forward-looking outlook, it needs to be more proactive in carrying it out.

82. The authority of the centre of government also depends on the interplay of responsibilities and power between the ministries which it comprises – in Finland, the Ministry of Finance and the Prime Minister's Office. The Public Management Department in the Ministry of Finance collaborates well with the Prime Minister's Office, as well as with the Personnel and Municipal Departments, which are also in the Ministry of Finance. The Budget Department of the Ministry of Finance, however, tends to go about its business in a much more stand-alone fashion. In this respect, there is a strong budget culture in the public administration that lacks the consideration of strategic steering from the Prime Minister's Office, and workforce and management considerations of the Public Management, Personnel and Municipal Departments. This dynamic is reinforced by the fact that the Budget Department is under a separate ministerial portfolio from the other Departments (representing separate parties of the coalition government) within the Ministry of Finance. Greater efforts need to be made to improve co-operation within the centre in order to assure an integrated steering process that aligns resources with the political programme of agreed outcomes and objectives for the government.

3.4.3 Leadership at the individual level within ministries and agencies

83. Leadership plays a significant role in influencing and reaching collective commitment within a public administration. Without strong leaders working collaboratively towards a common goal, fragmented stovepipes form, as has been evidenced in Finland. Leadership involves all levels of the public administration, although these roles are different from each other – where there is a need for strategic leadership at senior levels, team leadership at middle levels, and technical leadership among lower level employees.

84. In Finland there is a reluctant leader's culture in public administration which is linked to the concept of the 'tallest poppy syndrome'. In many cultures, and particularly in Nordic countries, it is not proper to stand out in a crowd – *i.e.*, to be the tallest poppy. Thus there is a general move to at least try to appear equal in stature and not to identify the next promising generation of leaders. In Finnish culture, no one person should visibly have more or be more than anyone else. This can impact on the capacity of people to be overt leaders or to take a leadership role because by definition a leader is 'taller' or stands out vis-à-vis the rest – this is particularly noticeable in Finnish public administration which is in contrast to the private sector, such as in the case of Nokia. The public sector culture of expertise also means that leaders should not be seen as being higher than the experts they are leading (which are exacerbated by remuneration structures). This might explain certain leadership issues in Finnish administration, such as a reluctance to move into positions of authority as well as preventing the assumption of leadership in programmes and horizontal policy execution.

85. Such attitudes may also account for resistance to adopting institutional leadership models in which certain public administration offices take responsibility for whole-of-government priorities and therefore provide leadership for the rest of the public administration in their domain. This is the case, for example, in the area of e-government where e-government development works through persuasion and provision of resources and technical assistance, rather than forcefully developing and articulating a programme for the rest of the public administration to follow. Such a model may not be particularly Finnish, but failure to provide stronger leadership in this area has resulted in the current lacklustre e-government outcomes. (see Box 2 on page 29)

86. Leadership is also needed to manage change. The almost continuous process of reform in the Finnish public sector over the past 15 years can lead to failures in reform implementation if it is not accompanied by efforts to make the changes sustainable. Reforms need sufficient time to be 'bedded-down' (*i.e.*, integrated into working methods, habits and minds), and an understanding of how reforms fit together and support broader objectives. Otherwise, there is a risk that projects are neither fully implemented, nor are given appropriate time to become established before they are modified or reformed again. Continuous reforms also impact on citizens who experience changes, and do not know where to go to get their services. For all of these groups, leaders are needed to explain the 'why' of reform as well as the 'what' and 'how'.

87. The impending public sector retirements provide an opportunity for leadership renewal in Finland's public administration. However, a transition strategy will be critical to preparing a new generation of leaders. The new Public Management and Leadership Development Programme being developed by SITRA will need to harness the potential within the public administration and foster a new era of strategically agile public sector leaders.

4. Strategic agility requires the ability to align resources with changing government priorities

88. Strategic agility requires the ability to move both personnel and financial resources to strategic priorities as they change, to identify and promote innovative ways to maximise the use of resources, and to increase efficiencies and productivity to take the strain off of the budget and deliver more effective public policies and services. It also relies on flexible budgetary and employment frameworks that enable the redeployment of resources after they have already been committed and the movement of staff to areas of strategic priority as needed.

4.1 The disconnect between strategic and budget frameworks limits the ability to prioritise resources and redeploy them as needed

89. The Finnish Government's budgetary framework significantly limits the government's ability to reprioritise resources should it be needed as part of a response to changing social and economic

environments. Current budgetary arrangements also act as a disincentive to horizontal collaboration in the development and implementation of government policies.

90. The Government Strategy Document, managed by the Prime Minister's Office, and the Budget Framework, managed by the Ministry of Finance, are considered the two key strategic planning tools. While the Strategy Document focuses on whole-of-government priorities, the Budget Framework allocates funds at a ministry level. So while the two processes have been aligned in timing under the Programme Management reforms, resources and desired horizontal outcomes are not linked. This presents a fundamental gap in the setting of strategic policy agendas and the means for implementation; the financial allocation decisions that drive incentives and resources for implementation are not aligned with the political priority areas as identified in the Government Strategy Document. Thus, when priorities change, funds remain allocated as originally decided and unable to be moved.

91. The disconnect between the preparation of the Government Programme and the budget framework impacts on the ability of the public administration to focus resources on the government's priorities. In line with modern budget practices, the Finnish budget allocates funding at the portfolio level rather than at the programme and project level. Therefore it is up to each ministry to interpret how the use of its budget allocation can best realise the priorities laid out in the Government Programme. At the time the Government Programme is prepared at the start of a new government term, however, there is no formal stocktaking undertaken of the projects and programmes currently funded and whether these should continue to be funded. In this sense, the new Government Programme is layered on top of former priorities. This makes it difficult for the public administration to know where to focus, but also makes it difficult for ministries to stretch resources across commitments, and creates a budget environment where the government is not forced to prioritise its objectives, thus creating a vacuum for political accountability.

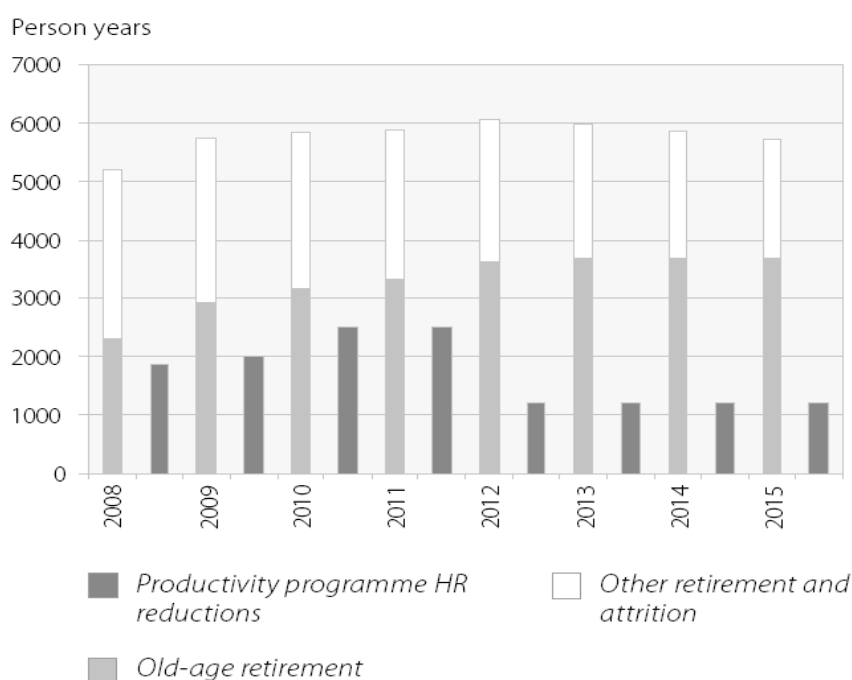
92. The disconnect between the horizontal Policy Programmes within the Government Programme and the budget process also limits the ability to achieve horizontal outcomes. Firstly, distancing the Policy Programmes from the budget process sends a strong message on priorities. A Minister with responsibility for a Policy Programme is not afforded the staff and means for meeting his/her responsibility and cannot require other participating ministries to share resources. Lead ministries only have 'the power to beg'. This provides both a disincentive to horizontal co-operation and to achieving horizontal outcomes. Execution depends on the co-operation of associated ministries to provide resources from their budgets, but as individual ministries place their own sector priorities – for which they are more clearly accountable – over vague horizontal obligations, it is not surprising that there is a lack of resources to fund horizontal programmes. Lead ministries may, in turn, be tempted to go it alone in terms of implementing their horizontal programmes, thereby losing out on the coherence and innovation benefits of horizontal co-operation. These dynamics can be evidenced in the implementation of the information society Policy Programme which did not achieve all of its stated objectives. Finally, the Budget Framework does not permit the transfer of budget allocations from one ministry to another. This creates an issue both in terms of agility and of incentives. While there is a political incentive to develop the Policy Programmes as a means to create stability across the government parties, there is little administrative incentive to implement the programmes in a horizontal fashion, or at all.

4.2 The Productivity Programme will be unsustainable unless the public administration makes a more concerted effort to support innovation

93. The Productivity Programme, introduced in 2004, is one of the most important corporate tools to increase efficiency and productivity in the Finnish public administration. Managed by the Budget Department in the Ministry of Finance, its objective is to maintain pressure to achieve and harvest public sector efficiencies through measures in government administrative structures, exploiting ICT more effectively and enhancing processes in central government, with a view to permanently reducing

government staff numbers and improving labour competitiveness, curbing expenditure growth and increasing the potential to relocate resources. It is often perceived elsewhere in government, however, as exclusively focusing on reducing the number of personnel rather than creating the conditions for increased innovation and efficiency. This is, in part, because reducing staff numbers is a major priority of the government, including a target of reducing the public administration by 9,645 person-years by 2011. In contributing to this target, the Ministry of Finance estimates that as at the end of 2008, a reduction of 2,600 person-years was achieved. The required cuts for 2009 equate to 1,040 person-years, which the Ministry of Finance advises will be achieved through natural attrition as over 5,500 public servants are expected to retire or transfer else-where every year (see Figure 4).¹¹

Figure 4 - Central government human resources attrition projections and Productivity Programme HR reductions, as at January 2009



(Ministry of Finance, Finland 2009a, p. 27)

94. Charges that the Productivity Programme only focuses on cuts are also due to the fact that while ministries and agencies depend on public management reforms such as ICT and process re-engineering to achieve expected savings under the Productivity Programme, the Programme, itself, is not explicitly linked to any of these other reform areas. In fact, while many of the cuts achieved to date have been enabled by public management reforms, there is no assurance that bodies that are unable or unwilling to improve efficiency will not see their cuts simply result in reductions in service, strategic planning capacity and/or staff morale. Many of those interviewed by the OECD commented that the implementation of the staff cuts has actually limited organisational capacity to have staff work on developing innovative ways to increase productivity, and risks creating a barrier to the introduction of new ideas by ministries. Ultimately, in the absence of the implementation of innovative practices to support increased productivity, the large loss of staff due to the Productivity Programme's HR reductions and retirements will have the effect of forcing remaining staff to do the same amount of work with fewer resources. Without accompanying innovation programmes, it will likely result in a flow-on impact for the future workforce through increased work intensification rather than working smarter.

95. The Productivity Programme is necessary and has contributed to the public service's relative state of fiscal health, but in order to actively promote further innovation and productivity, it should better link reductions in staff with efforts to examine the capacity needs associated with work intensification, for example through analyses of work capacity and reviews to identify possibilities for business process re-engineering, administrative simplification, and value for money. This would also serve to help identify innovative practices that could be generalised and reinforce the capacity of the Productivity Programme to help redirect resources to priority areas.

96. The Productivity Programme has effectively forced many ministries to look at their operations and come up with efficiency proposals and appears to have led to innovation in some areas – particularly seen with the police in the Ministry of Interior and the research institutes associated with the Ministry of Agriculture and Forestry. Following initial reductions of 'low-hanging fruit', however, the Productivity Programme will be more and more pressed to look explicitly at *how*, and not just *where*, efficiencies can be achieved, including by lending assistance to smaller bodies and identifying cross-cutting efficiencies, for example through the use of shared services. In the absence of efforts to support public sector innovation and delivery of services linked to the Productivity Programme, gaining substantial efficiencies other than from staff cuts will be difficult – thus limiting opportunities for self-administered reallocation.

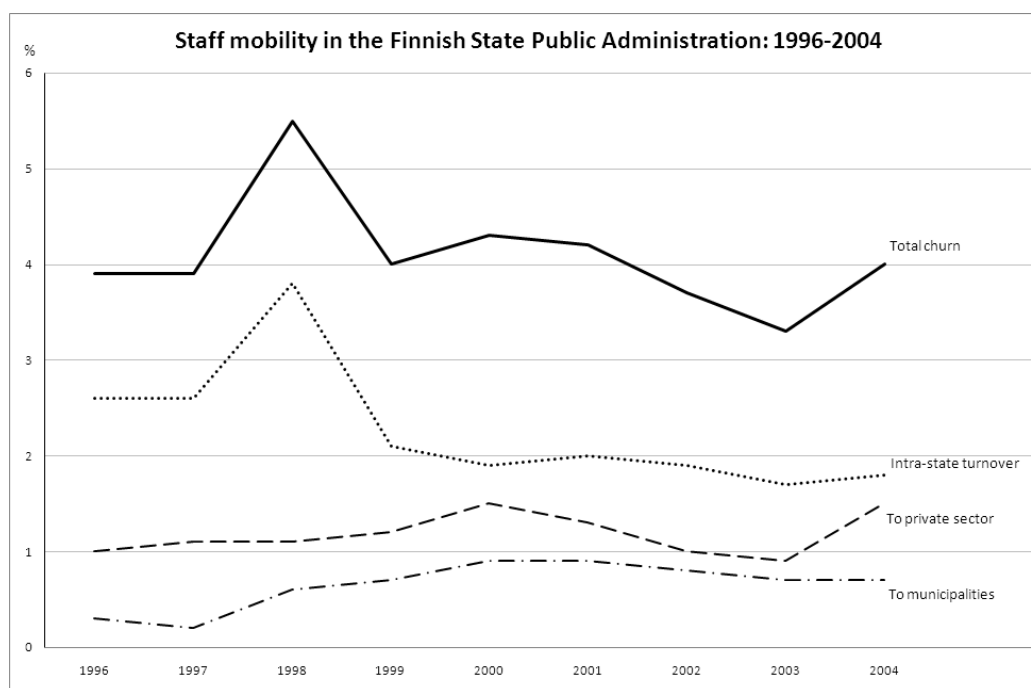
4.3 Workforce challenges are limiting resource flexibility in the Finnish public administration

97. Besides financial resources, harnessing resource flexibility in the pursuit of strategic agility also includes ensuring that the public administration's key assets – its staff – have the capacity and capability to achieve strategic agility, which includes staff skills and training, leadership, and mobility. Finland's public administration is approaching a critical time with the ageing of the public sector workforce and the large number of expected retirements over the next 5 years. While this situation has a high risk of paralyzing the Finnish public administration, it also provides the opportunity for renewal and an impetus for driving a change in organisational culture. The Finnish public sector seems to be approaching a challenging stage in which yet to be completed structural changes and continued ambiguities in cross government leadership lead to an incapacity to adapt quickly to existing and future challenges. There are a number of challenges in the current systems which are major barriers to moving forward to become strategically agile.

4.3.1 Low workforce mobility

98. The Finnish public administration system develops and values highly specialised expertise over generalist management skills which contributes to a lack of workforce mobility. In Finnish public administration there is little mobility of staff across ministries at the state level (see Figure 5), between the state and municipal levels of administration, and with the private sector. Mobility is an important issue for most public administrations, though some, like the Netherlands, have been more successful at tackling this challenge. The lack of mobility encourages ministry silos at the state level which creates a barrier to horizontality. In addition, as many leaders are only experts in their field, rather than generalist managers; they do not have a good cross section of experience and thus lack horizontal and whole-of-government skills. The lack of mobility also increases distance between the state and the citizen by impeding cross fertilisation with municipal staff. The lack of public/private mobility inhibits the injection and adoption of private sector innovation.

Figure 5 – Staff mobility in the Finnish State Public Administration (1996-2004)



(Source: Ministry of Finance, Finland)

99. In interviews with the OECD, it was noted that nothing prevents mobility in Finnish public administration as such, but that a resistance to moving around is a characteristic of Nordic culture, where people like to stay close to home. Personal preferences were given as a reason for the low workforce mobility – with the barrier to mobility being a collective cultural mindset issue. In relation to state/municipal mobility, it has been said that there is a strong passion for municipal work in Finland and thus staff have a preference not to transfer to work in the state administration. However, a number of people in leadership positions in the state administration that were interviewed by the OECD do seem to have worked in municipal administration or the private sector. One hypothesis is that there tends to be more mobility at the higher levels of the public administration. The impact of this is low mobility in the middle to low levels of the public administration which are the feeder groups to management positions. The ageing of the public administration leadership and impending retirements means there is a risk that very low mobility in feeder groups will intensify ministerial silos and have a negative impact on horizontal working relationships.

4.3.2 Workforce capacity

100. Due to the demographic age imbalance in Finland, it is estimated that by 2020 half of the current personnel at the municipal administration level will retire. This will leave municipalities competing against one another for employees. Similarly, at the state level, the ageing workforce will see a significant number of staff in the leadership pool retire in the next 3-5 years (80 per cent of senior leaders). This staff turnover provides an opportunity for change and renewal. However, the significance of these retirements is not to be underestimated where there is a significant public administration capacity issue that will first need to be negotiated, at both the local and state levels of administration. Maintaining civil service levels is estimated

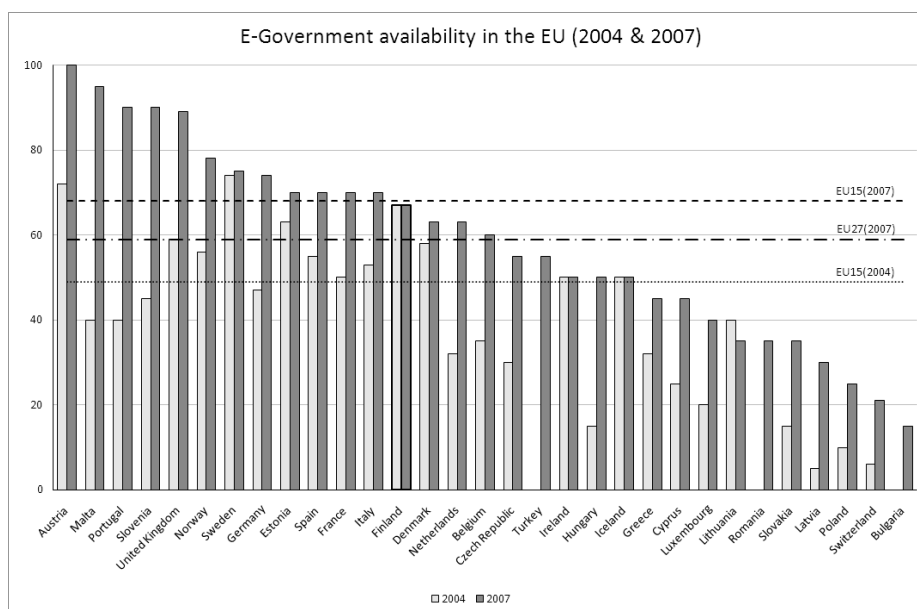
to require recruiting 20 per cent of the available workforce in the coming years. In addition, there is also an urgent need for a transition strategy for leadership renewal ahead of the planned retirements. The government is aware of this problem and has been trying to put measures in place to mitigate the impact, for example, by extending the retirement age and providing leadership training for those under age 45. The government has not had much traction, however, in focusing the attention of the political level on this issue. Workforce capacity provides a justification for e-government and the Productivity Programme reforms where rather than replacing staffing, the focus could be on how to develop the capacities needed to allow the public service workforce to become more efficient, productive, and cross-cutting in their outlook and working methods.

Box 2. E-Government – the consequences of a lack of strategic agility

In the past, Finland has been a world leader in exploiting ICT to renew its economy and to reform its public administration. It enjoys one of the highest e-government take-up rates by business in the OECD, and while there is room for improvement in citizen take-up rates (that average around 50 per cent), citizen usage of e-government services is still well above the OECD average of about 35 per cent. However, in recent years, Finland’s position as a leader in e-government has been slipping; something which has been perplexing the government which sees this as a factor for Finland’s competitiveness.

In the period 2004 to 2007, Finland dropped from 3rd to 13th in EU rankings for e-government availability (see Figure 6). While it is still ahead of the EU25 and EU27, in 2007 it dropped below the EU15 average.¹² Finland’s online sophistication (as at 2007) measured 82 per cent, where the overall sophistication score for citizens was above EU27+ average, but below average for businesses.¹³ Figures of the World Economic Forum show that Finland’s regression in the Lisbon Review ranking is, for a large part, due to a pronounced decrease in scores related to information society and network industries. However, it should be noted that other EU countries that have looked to the Finnish example as an e-government leader are now catching up with Finland. For example, Portugal has been very focused on accelerating its ICT development, and within a period of three years, has managed to rapidly climb up the rankings to be one of the new front running countries.

Figure 6 – E-Government availability in the EU (2004 and 2007)



(Source: Eurostat (2009). E-Government availability: defined for each member state as the percentage of each of the 20 services that are fully available online. For the EU, the calculation uses all services in all member states i.e. how many of the 500 (20 basic services x 25 member states) services are fully available online.

There is a high degree of political awareness and attention being given to information society policy and e-government in Finland. The government launched information society policy as one of the first four Policy Programmes in 2003 as a means to encourage greater whole-of-government action. The aim of the Programme was to boost competitiveness and productivity, to promote social and regional equality and to improve citizens' well-being and quality of life through the effective utilisation of ICT.¹⁴ This has helped to successfully integrate back office services in the state administration. The Shared Service Centre has the potential to be a successful concept in Finland, with the expectation that state ministries and agencies will use one Shared Service Centre for all HR and financial services by early 2010. However, shared services do not guarantee greater efficiency in and of themselves (state agency staff suggest the cost of joining the shared service centre is 2.5 times their original costs). Achieving greater efficiency through shared services will require better data on baseline costs of providing the same service in the corresponding government agencies, and appropriate incentives and controls to ensure that service provision costs stay below the baseline cost.

To date, the public administration has not yet successfully applied its approach in joining-up back office services (e.g., corporate HR and financial services) to front office services to citizens and businesses, including across levels of government. The SAdE Programme, introduced in 2009 and led by the Ministry of Finance, is trying to remedy this problem. While it has shown strong leadership and consultation in identifying areas for shared services and leaders in the public administration to develop and take these services forward, it has not yet developed a plan to shut down existing services made redundant by newly-developed shared services. Such a step is necessary in order to harvest and reinvest savings for additional e-government development.

Despite the increased focus on ICT reform at the political and strategic level, there has been a lack of connection between various ICT reforms, particularly across the state and municipalities, and with other reforms underway that can serve as drivers to improve the exploitation of ICTs, notably through the Productivity Programme. In relation to state ICT reforms, ministries have divided up responsibility for achieving efficiency gains using ICT rather than actually collaborating with each other which limits their ability to achieve cross-cutting benefits from shared services. Similarly there is a strong need for ICT integration across the municipalities. The government is aware of this, but faces greater challenges than in the state sector, due to municipal autonomy in decision-making and a large number of legacy systems. In addition, rather than using the PARAs reforms as an opportunity to align and merge systems, many municipalities seem to be distracted by structural reforms to develop new services. Thus, there is still an urgent need to harmonise ICT infrastructure across all levels of public administration in Finland.

The government is aware of the need for change in the area of ICT, but has not been able to gain traction. While government ICT governance was decentralised in Finland during the 1990s, the Ministry of Finance is now aiming towards a more centralised ICT governance model as a means of gaining greater control to achieving progress – through, for example, the ability to develop and adopt harmonised standards and frameworks within and across levels of administration. While centralised decision-making is not always a feature of successful technology introduction, it has been suggested that it may be necessary to drive ICT standards, the mutualisation of ICT systems and services, and the development of integrated citizen-centric services. Finland was an early leader in e-government, but is no longer at the front of the pack. There is concern regarding the hesitation to act in the ICT arena directly and in an integrated fashion. Presently, co-ordinated technological capacity is seen by the Ministry of Finance as a minimum requirement to leveraging important national opportunities in governance, quality of life and competitiveness.

5. Reform is required in order to maintain the provision of municipal services, but many municipalities have been reactive rather than strategic in their approach

5.1 Strengthening the state government's strategic insight would clarify the direction and objectives of sub-national reforms

101. Strategic insight at the sub-national level requires the preparation of a strong strategic vision by the state government based on consultation, participation and engagement with sub-national actors. A whole-of-society vision thus requires ideas, information and buy-in from all key stakeholders so that all of society's actors are working for a common goal. Developing whole-of-society strategic insight that is supported by society's actors requires the central government to adopt a stewardship role rather than bearing full implementation responsibility. In this respect, sub-national government is a key partner and deserves to be treated as such. This includes involving the sub-national level in a meaningful dialogue regarding strategic vision, consulting and engaging stakeholders in the development and implementation of

the government's policies, and consulting the sub-national level as part of futures reporting development and evidence-based decision making processes. It also requires the central government to assist in the capacity building of the sub-national level by providing tools to enable local initiative.

Box 3. Sub-national reforms – the examples of the ALKU and PARAs reforms

In Finland there are currently two reform processes in play advocating the strengthening of both the municipal and regional levels of administration – the PARAs and ALKU reforms. The objective of the PARAs reform is to ensure the sound structural and financial basis for municipal services in order to secure the organisation and provision of such services into the future. As part of this reform, municipalities are encouraged to either merge or increase horizontal co-operation via joint service agreements in order to improve efficiencies in service delivery. Service structures are to be strengthened by forming larger catchment areas for services for which the population basis provided by individual municipalities is insufficient and by increasing co-operation among municipalities. The expectation of these reforms is that operational productivity will be improved by making the organisation and production of municipal services more efficient.

At the same time, the ALKU project is being rolled out which aims to rationalise the current system of regional state administration by clarifying and reorganising the roles, duties, steering and regional division of all regional administrative authorities. A key theme of this reform is to increase the powers of the 19 Regional Councils to bring together and co-ordinate regional development activities where they will be given increased responsibility for strategic tasks. From 2010, existing local state authorities (of which there are currently 54) will merge into two new regional state administrative authorities- known as the Regional Administrative Agency (AVI- 6 agencies) and the Centre for Business and Industry, Transport and the Environment (ELY – 15 centres).

102. A key example of the importance of strategic vision is in the implementation of sub-national reforms. (See Box 3) The PARAs and ALKU reforms highlight the importance of using business cases to determine when and how reforms should be implemented. The rollout of both the PARAs and ALKU reforms seems to have resulted in confusion amongst some municipalities as to the government's strategic objectives and the benefits to themselves of these reforms. This may have led some municipalities to 'sit on the fence' *i.e.*, put off implementing reforms until they see which type of reform has the most government support. Municipalities have indicated that there is a need for greater clarity of the government's agenda and, as such, would prefer clearer guidance about their future plans for municipalities.

103. The use of business cases has the benefit of not only including cost benefit analysis, and wide consultation and gathering of data on impacts, but also provides a basis from which to clearly communicate the rationale of the reforms to stakeholders. Two Strategy Documents have been drafted which were released following the January 2010 rollout of ALKU – the Ministry of Finance co-ordinated a Strategy Document for AVIs and the Ministry of Employment and the Economy co-ordinated the Strategy Document for ELYs. ~~has drafted two Strategy Documents (one for AVIs and one for ELYs) which were released following the January 2010 rollout of ALKU.~~ These documents lay out strategic aims for regional bodies and tie them back to the Government Strategy Document and other government programmes. Each set of bodies also has one strategic performance target agreement which lays out targets that tie back to their Strategy Document and which can be revised annually. While only recently available, these documents may serve to better inform more sub-national authorities about the purpose and structure of the ALKU reforms and result in greater buy-in to the reforms. While necessary, these strategic planning documents would have been even more powerful if developed in conjunction with the reform plans. The PARAs and ALKU reforms have different objectives, take place at different levels of government (PARAs at the municipal level and ALKU at the regional level), and have followed different, but overlapping timelines. That said, they impact on many of the same sub-national actors, and therefore it is all the more important that those actors understand how the reforms interact. Further consultation with municipalities could be useful to assess whether or not the additional information has had an impact and to determine what more is needed, including on how the PARAs and ALKU reforms interact, how individual authorities

stand to benefit, what are the next steps and future vision, and how individual authorities can make informed decisions on how to implement reforms.

104. In examining the PARAs reform, the desired outcomes of the reform are unclear. The lack of strategic vision translates into a lack of clear targets for the reform. This lack of communication of the strategic vision and target setting means that it is difficult to determine the success of the reforms. For example, so far the number of municipalities has been reduced from 418 to 348 as a result of the PARAs reforms, but this does not reveal much about the success of the mergers. In some regions, 10 municipalities merged into one; in another, three merged to form one of 130,000 inhabitants. Some interviewed were of the view that the number of municipalities should be significantly reduced, to perhaps around 100 municipalities. Thus, as the parameters of what would define success have not been articulated, it is difficult to know when objectives have been achieved. While the final number of municipalities as a result of the reforms is probably not a useful indicator of success, efficiency targets and implementation timeframes, as well as parameters concerning the establishment of joint municipal bodies, would help guide implementation.

105. Given that the aim of the PARAs reform is to increase efficiency via larger municipal catchment areas (building economies of scale), there has been some questioning of the role of, and need for, regional administrations in some parts of Finland in light of other sub-national arrangements in place, especially as regions have no legislative or political influence, and particularly given Finland's relatively small population. There is an indication that the complexity of Finland's sub-national reforms may reflect a political agreement, but if the complexity of the reforms is not addressed it will remain a challenge for implementation and for achieving the intended objectives. Thus, it is critical that the national and sub-national level develop, together, a clear strategic vision for sub-national arrangements and strive to maximise coherence in the sub-national policies developed. Perhaps such a national strategic vision for the sub-national level could be to gain an agreement to maximise areas based on their differences. This scenario could enable multiple models of regionalisation based on the needs of the particular area: where for example a region-based development model could be used in the more sparsely-populated central and eastern Finland, and a municipal merger approach could be used in the more densely-populated southern areas of Finland (with the exception of the Helsinki area). However, developing a shared strategic vision between the sub-national and national level will require collective commitment by both levels to ensure the outcomes are achieved.

5.2 Collective commitment at the sub-national level requires horizontal and vertical alignment of objectives and incentives

106. Municipal autonomy in Finland has often been seen as a barrier to collective commitment at the sub-national level. This autonomy is enshrined in the Finnish Constitution and affects interactions between the national and sub-national government and the delivery of services to Finnish citizens, but it is important for municipalities to realise that collective commitment is needed precisely because failure to act in a unified way will endanger their current autonomy. Moving to an environment of collective commitment across sub-national governments will require a new relationship between the state and sub-national level. Given Finland's past experience, collective commitment will require the state public administration to enhance its stewardship role with the sub-national government as partners by giving local authorities the tools to achieve shared objectives within their scope of autonomous authority and through collective buy-in of the sub-national level to the national government's strategic agenda. Such a vision should also include a key role for the Association of Finnish Local and Regional Authorities.

107. The current implementation of the ALKU reform provides an example of the need for collective commitment at the sub-national level. While the objective of the ALKU reform is to improve regional co-ordination and co-operation between state sectors, there is a view that the reform does not go far enough in

doing this. ~~The establishment of the AVIs and ELYs and the~~ clarification of roles and responsibilities of the state regional administration (AVIs and ELYs) and of the municipal-based Regional Councils will indeed simplify arrangements and provide greater transparency regarding duties, which can be confusing given the different nature of the two regional administrations: state-based, top-down AVIs and ELYs, and ~~regional council-municipal-based, bottom-up ELYs-Regional Councils~~. ~~Some linkages~~ Linkages are between the ELYs and Regional Councils ~~two~~ are in place. For example, when the Regional Councils make their regional policy documents, these documents are taken into account in the ELYs through the performance agreements ~~links these documents through to~~ between the steering ministries and ELYs. Further building and strengthening their relationships will improve the ability and opportunities for coherence. Finally, the new structure does not sufficiently address the disconnect regarding who develops the strategy and who manages the budget – central authorities still retain budget control and funding is a responsibility of the state while the Regional Councils are responsible for setting development policy for their territories. Therefore, while an aim of ALKU may also be to strengthen Regional Councils by further increasing their participation in the regional development process, their persistent lack of budget authority reinforces a current status quo. For these reasons, ALKU should be viewed as a first step towards a fuller regional reform process.

108. While in general, collective commitment at the sub-national level can be difficult to achieve, it does exist in Finland. The key to achieving such commitment, however, appears to be through changing the relationship between the state and sub-national level. The Regional Cohesion and Competitiveness Programme (Coco) provides a good example of the ability for the national and sub-national levels to forge such a new relationship. It falls under the auspices of the Ministry of Employment and Economy (MEE) and is a network policy model designed to enhance regional competitiveness, while balancing regional development by supporting the interaction and linkages of key regional development actors. The programme fosters co-operation between municipalities in 52 defined Coco regions and between Finland's current 19 regions. Coco is a good example of a programme designed with, and to promote, information sharing. The focus of Coco is on bottom-up participation and ideas generation. The state actively consults with municipalities and collects ideas from the local level and collates them as part of the Coco agenda. In this way, Coco provides a successful model for collective buy-in at the sub-national level.

5.3 Additional capacity may be required at the sub-national level to achieve strategic outcomes

109. Internationally, the present financial and economic climate is having a negative impact not only at the central level, but also at the sub-national level. In Finland, local authorities are responsible for providing essential public services – also known as basic services – with close to 40 per cent of total government expenditures at the sub-national level.¹⁵ (see Box 4) With the changing economic and demographic environment, the Finnish Government has become aware of the growing need to align and integrate systems and services in order to harvest efficiencies and increase the sustainability of government programmes. At the sub-national level, however, resource flexibility is less of an issue of moving resources to changing priorities, as one of realising efficiency gains and finding innovative ways to direct funding to the efficient, effective and equitable delivery of public services.

110. In looking at the PARAs reforms, however, some views were expressed to the OECD that the reforms will not strongly increase efficiencies for a number of reasons: that rules of engagement for co-operation among municipalities are too loose and that local governments are able to organise their co-operation differently; that following the mergers of local governments, staffing levels may remain the same for up to five years, thereby minimising any immediate efficiency gains; that there are no set fiscal and/or efficiency goals for the reforms; and that there is a risk that changes might decrease productivity and raise costs. It has also been suggested that the municipal reforms are too focused on achieving actual mergers rather than on taking action to strengthen structural and financial frameworks. Many municipalities seem to be struggling to cope with the administrative changes required as a result of the merger and admit that the

ability to achieve innovation in service delivery (which should lead to efficiencies) will be some years off. There were fears by municipalities that the level of service delivery may even decline as a result of participating in mergers because of the energy and time needed for administrative adaptations, which could take up to five years. In fact, it was actually suggested by some municipalities that phase one of the merger is to implement administrative changes and stage two will be to examine and implement innovations in service delivery practices.

111. In looking at recent history, municipal capacity in Finland to maintain efficiency gains has been low. In the 1990s, municipalities ran out of funds and investment levels were at zero. The municipalities addressed this issue by reducing the workforce so that their economies would be better balanced. Because local governments generally ran a surplus, they were able to reduce their expenditures quickly. However this reduction was not accompanied by structural changes in service production. As such, after the recession when parliament ran a campaign to reinvest funding back into the Municipalities, the money was used for investments that were postponed and for re-staffing. Once staffing levels were back in place, there was a noticed productivity drop. In other words, the efficiencies that were forced were not maintained when the crisis passed. In the context of the current crisis, this may be happening again, where the municipalities are reducing expenditures, not through structural means, but through emergency measures, such as reducing staff, giving holidays and temporarily closing schools.

112. The demographic changes in Finland (*e.g.*, migration, ageing, etc) combined with fiscal and other resource pressures are creating a service delivery environment which puts at risk equity in services for citizens across territories. The constitutional autonomy of municipalities enables them to implement services based on their specific demographic needs. At the same time, municipalities must meet mandatory minimum service levels in accordance with the Constitution. This helps ensure a degree of standardisation across municipalities. However, it also requires a prioritisation of funds and resource allocation which may not necessarily be representative of municipalities' own perceptions of their particular needs. This can create a mismatch between the service priorities of the central level with those of individual sub-national authorities, creating a multi-level tension in service delivery matters (examples include the delivery of joined-up health services).

Box 4. Basic Services Programme – responding to the need for increased capacity

Basic services (*i.e.*, primary and vocational education, primary health care, basic social services) in Finland, are funded in part by state government, while legislation provides for a minimum standard service level for certain services, and municipalities are responsible for determining the best mix of services and mechanisms for their delivery to the public.

The Basic Services Programme was introduced as a tool to facilitate the management of local government services and their financing, and to improve linkages across different lines of service delivery to encourage innovation and to build local capacity. The Programme aims to introduce a new model of working across the different jurisdictions. It looks at the state of basic local government services and evaluates the outlook in local government finances and the impact of the government's budget proposal on local government finance. The budget is drawn up in connection with the government's budget proposal. It evaluates changes in the local government operating environment and the demand for services, the trend in local government finances and changes in local government functions and draws up a plan of the measures required for balancing revenue and expenditure.

In an ever increasingly tight fiscal environment, a key challenge for the central government is how to monitor the effectiveness of the spending of local governments. With increased discretion in the spending of state grants through block grants introduced as part of the Basic Services Programme, the municipal and central governments will need to come to an agreement regarding how to ensure accountability to citizens on service quality and the use of public funds. While the Basic Services approach may give municipalities additional flexibility, so far it has not provided the accompanying, clearly articulated performance expectations in order to drive additional efficiency, productivity, innovation, and service quality improvements.

There is also a need to balance the fiscal capacity of municipalities (and of central government) with the expectation by citizens (and the Constitutional requirement) to provide public services in an effective fashion regardless of location. While this may require changes in fiscal approaches, it may also require communication with citizens as to the reality of moving forward in a 'business-as-usual' manner. Citizens may need to be educated of a looming need for a trade-off between maintaining high quality, wide accessibility services with convenient service access (immediate service proximity, regardless of the need or frequency of service usage). This discussion can only take place effectively, however, if it is informed by information about the quality and usage of services.

Another challenge for basic services is the capacity to maintain the same type, level and quality of services across the country. Inequity is also evident in the payment of social security benefits which, despite minimum payment levels identified in legislation, municipalities are able to provide benefits above this amount as they see fit. The work of the SATA Committee, which is looking at payment simplification and streamlining, will look to consolidate some state based payments and merge some municipal based social security payments into the Kela portfolio. This will help close some distance between the inequitable delivery of social security payments in Finland, but this work could beneficially be expanded to include the delivery of all social and health services and benefits.

Differences in service delivery across municipalities and disconnection in service provision across providers is reinforced by stand alone-ICT systems in each municipality and regional administration. This situation, coupled with the decision-making autonomy of municipalities, has created an environment where basic services are not joined-up across municipalities (outside of joint co-operation structures) and across levels of government. Thus, information is not shared across municipalities for a given service and among service providers in a given location (*i.e.*, information does not move along the service delivery chain to the next provider). Citizen-centred service delivery is more than just the co-location of services at a municipal level. It requires the provision of all basic services in a seamless interconnected manner to the citizen – the 'no wrong door' approach in which citizens get the help they need regardless of which jurisdiction of government they contact.

113. While the financial situation of the sub-national level is a critical issue, so too is its capacity to absorb reform and develop innovative responses to harvest efficiencies and increase productivity. In this respect, the capacity and capability of sub-national administrations is an important aspect of achieving strategic agility for the nation as a whole through increased resource flexibility. Innovation is needed at the local level because this is where services are delivered and where staff are located. Nearly 430,000 staff are employed by local and joint authorities, which constitutes one-fifth of Finland's entire workforce, as compared to ~~124,000~~ around 90 000¹⁶ staff at the various levels of state government. A stewardship relationship is therefore needed between central and sub-national government and key stakeholders such as the Association of Finnish Local and Regional Authorities. Such a relationship would be based on developing commonly agreed expectations on service delivery and quality expectations, as well as the resources required to meet them, both in financial and capacity terms. While the Basic Services Programme sets the fiscal and regulatory framework for the delivery of basic services, it has not sufficiently addressed performance expectations, on the one hand, nor what is needed to stimulate local innovation for improved service delivery, on the other. The sharing of good and innovative practices, the development of common standards and service delivery platforms, the introduction of business case and analytical tools to choose the right reforms, and regular consultation at all stages of policy development are all elements of what are needed to make this new relationship a reality.

6. Conclusion

114. The current set of public administration reforms in Finland is comprehensive and ambitious. They seek to strengthen the existing system, but they do not seek to fundamentally change it. The sustainability of the current structure for public services may require Finland, however, to be even bolder and to go further in its reforms in order to achieve the strategic agility needed to respond to the current and future needs of its people. Shifting the current paradigm could be achieved by turning the public administration on its head, by changing its focus from better connecting ministerial stovepipes and local government

boundaries to focusing work around the needs of its citizens and businesses. Such an approach does not necessarily imply radical structural change – though some additional structural reforms may be required. Instead, it means developing a closer relationship between citizens and businesses and the public sector as a whole – regardless of boundaries or levels of government – that would reduce distances and build citizen engagement by focusing on how the different parts of the public sector can better work together in order to respond to a shrinking public service and growing costs of service delivery.

115. Many, if not all, of the elements discussed in this report, are either already in place or are being explored by the Finnish public administration in its continuing effort to innovate. Some of these efforts, however, will need to be strengthened and their coherence improved in order to achieve an overall vision. In the Finnish context, achieving such a vision involves reinforcing Finland's e-government strategy and building a new relationship between the state, local authorities, civil society organisations and businesses. It requires more coherent service delivery, improved planning and foresight capacity from a whole-of-government perspective, stronger horizontal linkages across state government and reinforced capacity and leadership at all levels of government to better communicate and implement a common vision. The realisation of this vision also requires developing a consensus among all stakeholders – government, citizens, unions, business, and civil society – on overall objectives and goals for Finland, and collective responsibility for achieving these objectives. This can only be accomplished through a transparent and interactive process of engagement with reinforced leadership and strengthened steering capacity.

¹ The concept of strategic agility has been adapted from work by Doz and Kosonen (2008) for use in the public sector context.

² See table 1.1 in OECD (2009) *Society at a Glance*, p. 11.

³ The economic analysis and projections in this document are based on the OECD Economic Outlook 85, June 2009.

⁴ Public debt: measured by general government gross financial liabilities as per cent of nominal GDP.

⁵ OECD Economic Outlook 85 Database.

⁶ Old-age dependency ratio: measured by the ratio of the population aged 65 over the total population.

⁷ OECD Statistics

⁸ Ministry of Finance, 2009a, p. 25.

⁹ Business case refers to a communicated rationale for a reform/project/change providing the vision and outcomes to be achieved, the methodology for achieving them, a cost/benefit analysis, impact assessment, engagement strategy and evaluation framework.

¹⁰ Prime Minister's Office, 2007, p.12.

¹¹ Ministry of Finance, 2009a, p. 26.

¹² Eurostat, 2009.

¹³ Capgemini, 2007, p. 43.

¹⁴ Ministry of Finance, 2007, p. 45.

¹⁵ OECD National Accounts Data.

¹⁶ The 124 000 in state administration staff was reduced to 90 000 due to the introduction of university reforms which came into effect on 1 January 2010, changing the employment status of approximately 30 000 university staff.

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