



# OECD Public Governance Reviews

## FINLAND

**WORKING TOGETHER TO  
SUSTAIN SUCCESS**



ASSESSMENT AND RECOMMENDATIONS

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**Assessment and Recommendations**

## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	2
ASSESSMENT AND RECOMMENDATIONS .....	5
Overview.....	5
Increasing strategic agility in the Finnish public administration .....	9
Strategic insight.....	10
Collective Commitment .....	15
Resources Flexibility.....	21
Multi-level Governance .....	27
Conclusion.....	32
KEY RECOMMENDATIONS .....	34
BIBLIOGRAPHY .....	38
ANNEX A - MANAGEMENT AND CONSULTATION .....	45

## **EXECUTIVE SUMMARY**

The Finnish Government has a strong track record in responding to difficult economic situations and, it may now be facing its biggest challenge. Since the mid-1990s, and prior to the current global economic downturn, Finland enjoyed strong GDP growth in a low-inflation environment, with rising employment and a sound fiscal position. The public administration has been critical to this success, both 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 trusts the public administration as a key partner for economic development and service delivery, as well as the mechanism to realise many Finnish values of social solidarity and equality.

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

### **The sustainability of the Nordic Model**

Like 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 the ageing of the population, shifts in the global economic environment and, more recently, the impact of the global economic crisis. In addition, internal migration away from rural areas due to urbanisation is also posing geographic challenges for public service delivery. In this context, citizens' rising demands and expectations 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.

The public administration's ability to respond to new developments will impact not just economic growth, but also 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 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 re-inforcing 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 make those choices, on behalf of the citizenry, as the steward of Finnish public values, resources and objectives.

## Achieving strategic agility

A sophisticated political system has evolved in Finland to maintain the complex balance of rural and urban interests, and the preferences of key 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 government's term. The result is a reduction in the Finnish public sector's strategic agility<sup>1</sup>, *i.e.*, the government's ability to anticipate and flexibly respond to increasingly complex policy challenges. Strategic agility requires a whole-of-government perspective to determine what requires collective action and what should be handled at a devolved sector or level in order to ensure the greatest responsiveness to the issue at hand.

Strategic agility is about taking decisive action where necessary, as coherently as possible and in line with existing priorities and constraints. It requires frameworks to enable fast and quality decisions, and to ensure their effective implementation in order to generate public value. This review looks in particular at three pre-requisites for achieving strategic agility: strategic insight, collective commitment, and resource flexibility (See Box 1.1).

**Strategic insight:** Strategic insight helps the government to develop its vision of its aims. Finland is a leader in identifying and placing high-level commitment behind horizontal, government-wide priorities. The current Government Programme explicitly commits to looking at climate change, and has set 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; horizontal priorities still lack sufficient follow-through and resources to realise the vision.

Finland's current approach to forecasting for future issues – studying a single issue across the government mandate – while proactive, lacks sufficient flexibility to address possible new issues as they arise. The practice of stakeholder engagement is also limited, despite central commitment. 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 ensuring that its decision-making frameworks take into account both evidence and opinion, and by determining what evidence-base is needed for which types of decisions. In this way, the government 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 scan forward to understand the changing environment.

**Collective commitment:** Achieving collective commitment to realise strategic insight does not necessarily mean consensus, as the public service will often be called to work in new ways and to achieve more difficult objectives. Public servants therefore need to understand why they are being asked to work a certain way and the consequences if they are unable to do so. Adherence to the government's common vision could be improved 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 levels.

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 service delivery. The SADe programme, launched in 2009, is looking to create centres of competence at all levels of government to provide front-office services to citizens and business on behalf of the rest of government, but realising its ambitious objectives will require the alignment of governance and leadership frameworks to support a common government-wide approach.

The relative homogeneity of the Finnish public service means that much is accomplished through informal working methods and networks that cut across sector boundaries. This is important as it significantly lowers public-sector transaction costs. The values that drive these ways of working could be further strengthened 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.

**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. 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 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 public sector innovation.

The government has sought to break down barriers across sectors by combining funding streams and simplifying regulations in the basic services delivery areas. The provision of these services falls under the responsibility of municipal authorities who 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, and therefore improve the sustainability of financing, quality and access.

**Multi-level governance:** All of these issues hold true for relations both within state government and across levels of government. A number of recent and ongoing municipal and regional reforms in Finland aim 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 they are expected to improve the efficiency of sub-national governments, improve policy coherence, and 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, thereby further aligning horizontal and vertical objectives, and building 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 entered the global economic crisis with a relatively strong fiscal situation. It has a strong competitive environment, a qualified workforce, and a deserved reputation for good governance. Yet, as with many other OECD countries, it realises that preparation for the future is essential to maintaining its 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. It is not surprising that Finland has afforded a critical role to assuring the preparedness of its public service – 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. Building strategic agility will allow the government to better tap into and use a public service that is already of high quality.

## ASSESSMENT AND RECOMMENDATIONS

### Overview

Since 1987, successive Finnish Governments have focused on the modernisation of government, with public management reforms receiving strong political support. The public administration's 200<sup>th</sup> 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 a willingness to innovate and to look beyond borders for examples of international best practice. The Finns have traditionally supplemented 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 service 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.

As part of this review, the OECD has analysed the operation of the Finnish public service, with a particular focus on horizontality within the state 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 ending 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.

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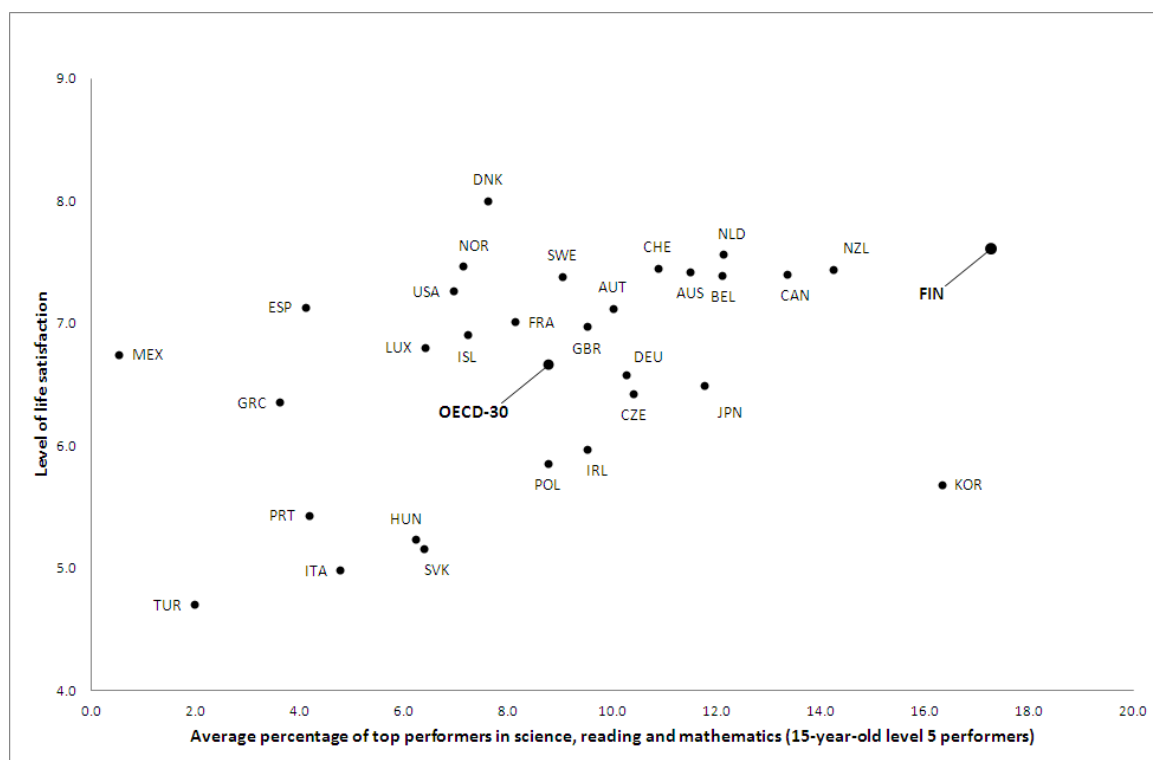
*The sustainability of the Nordic Model will require strategic agility to respond to complex and fast-changing challenges*

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A significant characteristic of Nordic countries has been their ability to successfully combine openness to globalisation with collective risk sharing in a mutually supportive and inter-connected way. While globalisation offers numerous 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. To counterbalance the negative effects of these new challenges, Nordic countries have intensified collective risk sharing. The welfare state and labour market institutions work together to guarantee a Nordic type of “social contract”; in exchange for a strong public sector, a large share of national income is absorbed and re-distributed. 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). 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 key social indicators identified by the OECD.<sup>2</sup> Performance in education and life satisfaction are examples of societal indicators where Finland ranks the strongest within the OECD (See Figure 1.1).



**Figure 1.1. Examples of societal indicators: Education performance and life satisfaction, 2006**



Source: OECD, PISA 2006 database and World Gallup Survey, 2006.

Throughout the 2000s, Finland and the other Nordic countries successfully took advantage of the opportunities of globalisation and contained the spread of risks and threats to the social contract. However, the recent combination of the global economic crisis with demographic developments require that the instruments and policies in place to maintain the social contract in Finland be re-evaluated in order to maintain quality services and citizen satisfaction at a lower cost.

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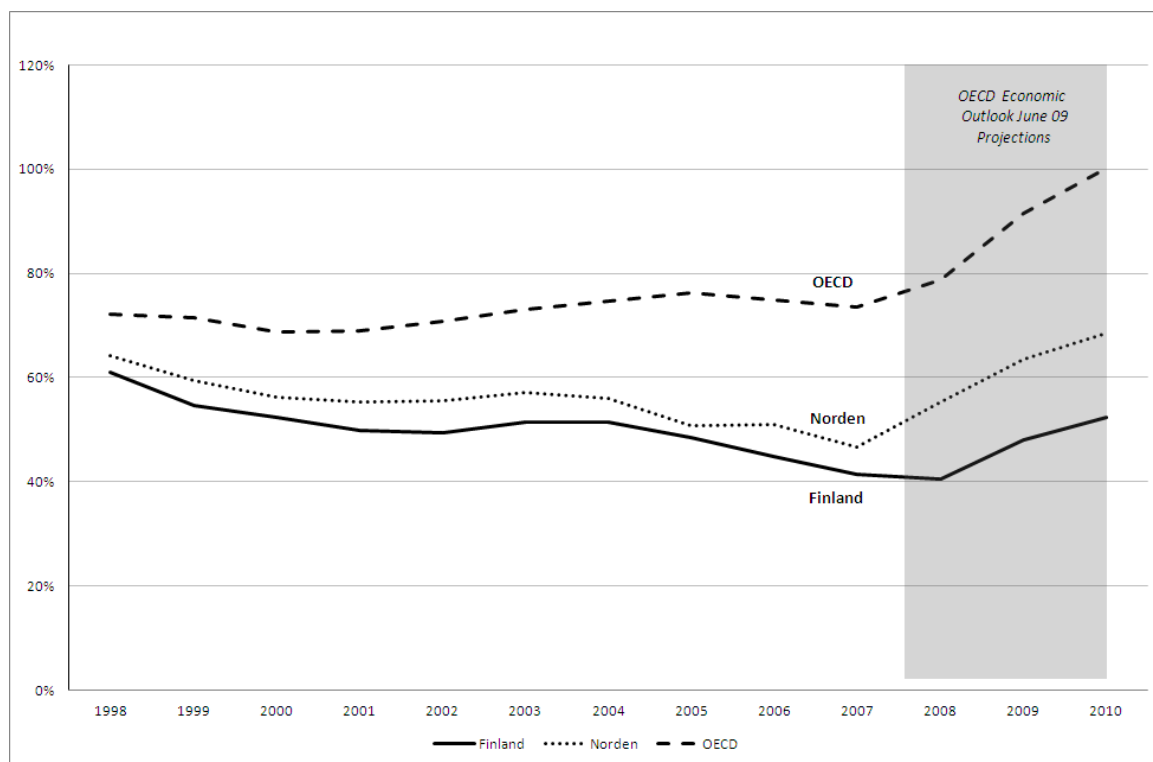
*Despite sound fiscal management, the longer-term demographic outlook requires continued improvement of the public administration to maintain strong societal gains<sup>3</sup>*

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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. Finland's ability to adapt to a changing economic environment, as seen during the recession of the early 1990s, and a tradition of fiscal responsibility have put Finland in a good position going into the economic downturn: 1) Finland has had sufficient budget margins to introduce a fiscal stimulus package equalling 1.7% of GDP; and 2) while the central government's finances will weaken in 2009 and 2010 – public debt<sup>4</sup> is expected to increase by 29% between 2008 and 2010, rising from 40.6% of GDP to 52.4% of GDP – Finland's level of public debt is still relatively low compared to other OECD countries. (The OECD average is expected to increase from 78.7% of GDP to 100.2% of GDP between 2008 and 2010. See Figure 1.2.) 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.<sup>5</sup>



**Figure 1.2. Public debt: General government gross financial liabilities, as % of nominal GDP (1998-2010)**

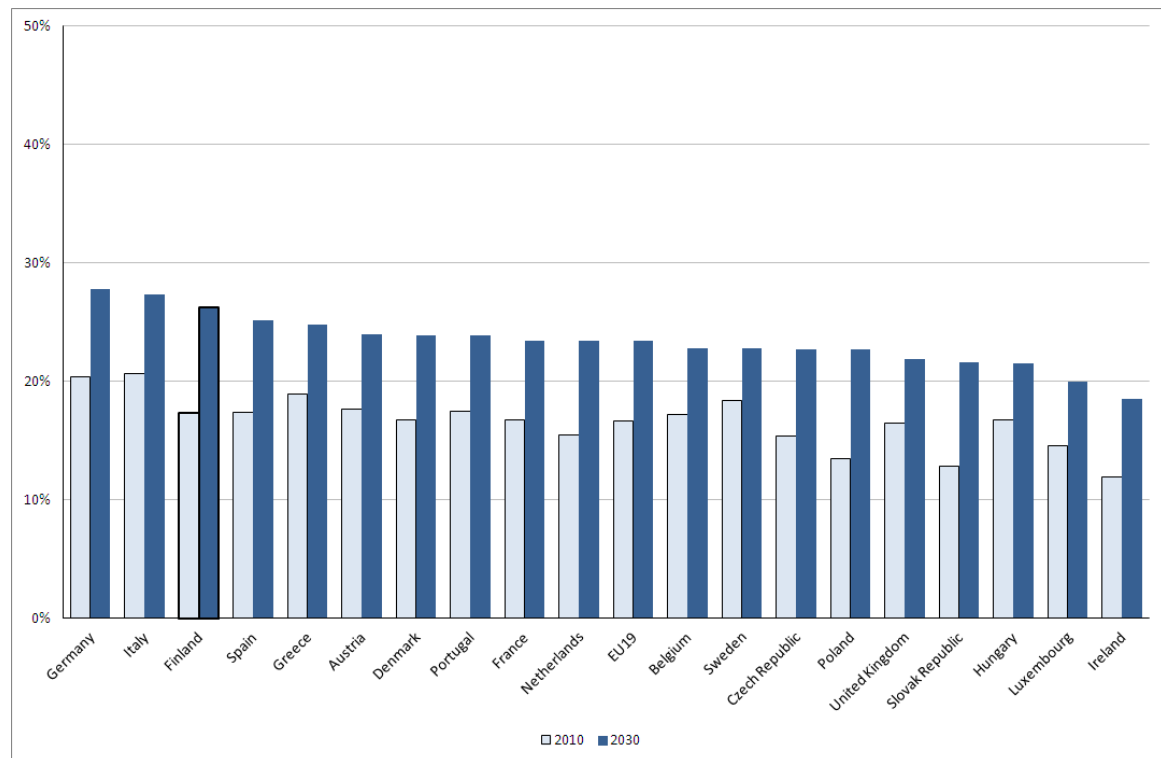


Source: OECD (2009) Economic Outlook 85. June.

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

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 ratio<sup>6</sup> in Finland is projected to grow faster than the average of the 19 OECD countries which are members of the EU, with a 51% increase from 17.3% of the total population over 65 years of age to 26.2%, compared to an expected 23.4% overall average in 2030 for the 19 OECD countries (see Figure 1.3).<sup>7</sup> 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 increased 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. 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.<sup>8</sup>

**Figure 1.3. Ratio of population aged 65 years and over to the total population in OECD EU member countries, 2010 & 2030.**



Source: OECD Factbook, 2009.

*The public service increasingly needs to work collaboratively to strike a balance between controlling public service costs and maintaining equitable access*

The structure of the Finnish public administration is characterised by strong, independent ministries and agencies in the state administration and autonomous municipalities. Finns traditionally trust the state level of government, but prefer that everyday functions (such as the delivery of basic services) be located at the local level. In the past, this approach has been successful, but demographic and economic circumstances are now increasingly challenging municipalities' ability 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.

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 respecting municipal independence and 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 coherent whole-of-society responses to these challenges. This will require the ability to promote a common understanding of the challenges and available solutions at a societal level.

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

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Finns are well aware of the need for strategic change and have a long history of innovation and renewal. In the public sector, however, long-standing values and 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 from the periods of Swedish and Russian rule resulting in a sense of formalism and legalism which still permeates social, business and political affairs.

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 can 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 span of the Government Programme makes it difficult for the government to change direction in reaction to shifting environments and priorities. While there is a mid-term review of the Government Programme, it appears that this is used more to confirm progress in achieving the Government Programme rather than as an external scan to determine if the Programme needs to be modified – thus reducing the government and public administration's ability to be strategically agile.

The resulting consensual policy agenda has 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 the speed of contextual changes increase, they can also limit agility, preventing the administration from being able to easily shift focus and resources to new priority areas. The predictability of these processes, which is an important factor in their strength, also appears to limit opportunities for change and course correction in the face of new societal and international factors. Engagement, which can be an important step towards innovation, may also be reduced.

### **Increasing strategic agility in the Finnish public administration**

The Finnish Government is aware of the pressing need to adapt to the increasingly global and complex environment, as failure to do so could lead to a decline of the Nordic welfare model. Thus it has put in place reforms at all levels of government to help shore up the public administration. These reforms include initiatives aimed at local and regional government structure, performance management, e-government, regulation, policy planning and co-ordination.

To meet the aforementioned challenges, the government needs a public administration that is flexible, responsive and strategically agile. Strategic agility in a public-sector context entails capacity for, and commitment to, strategic insight, collective engagement and resource flexibility (see Box 1.1). 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 thereby requiring 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 and expected outcomes, the public service has struggled to deliver in more recent times.

### Box 1.1. Building strategic agility: Some key concepts

Today's dynamic world and society requires governments to be able to change policy directions quickly and effectively as circumstances demand. **Strategic agility** 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 adapted the work of Doz and Kosonen [2008] for use in a public sector context in order to identify 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 public actors' individual work, as well as co-ordination and collaboration with other actors (both inside and outside of government and across levels of government) as 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 for both fiscal consolidation and re-investment in more effective public policies and services.

### *Strategic insight*

A key element to achieving strategic agility is governments' and public administrations' capacity for strategic insight. In the public-sector context, strategic insight requires the capacity and capability to conduct dynamic 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 government's ability to actively seek and consolidate the experience and expertise of multiple stakeholders in developing a strategic vision and operationalising it through strategic-planning frameworks.

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

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It is important to determine the type of planning and/or decision-making required in order to select the most appropriate input for achieving strategic insight. Identifying long- and medium-term priorities, for example, can 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 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 1.1.).

**Table 1.1. Analysis Horizons: Strategic and decision-making needs by planning timeframe**

Analytical Needs	Characteristics	Requirements	Examples
<b>Foresight</b> (Long-term: >10 years)	Anticipation of & preparation for both foreseeable & disruptive /discontinuous trends & capacity needs; including future costs in today's decisions	Continuous scanning & consultation; pattern recognition; analysis of "weak signals"; futures studies; consensual views?	Futures Reporting; horizon scanning; long-term budget estimates; scenario planning
<b>Strategic Planning</b> (Medium-term: 3-10 years)	Anticipation of & preparation for foreseeable changes & capacity needs; 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
<b>Decision making</b> (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 re-allocation; overview of stakeholder preferences	Executive action; annual & mid-term budgets; crisis response

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*Evidence-based decision making supports the legitimacy and implementation of major policies and reforms, thereby supporting the realisation of the Government Programme*

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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 competing objectives.

Finland has frameworks in place that contribute to the achievement of an evidence-based decision-making culture, such as research bodies, some public consultation, Regulatory Impact Assessments, and requirements for ICT investment business-cases. Yet, 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 service. In part, this may be because many 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.

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 results can be locked into political agreements that leave the government little room to manoeuvre. Increased use of analysis to underpin political policy discussions would both make them more transparent and open, and also clarify impacts, trade-offs and consequences to provide the tools for dialogue on how decisions could be adjusted where necessary.

Evidence-based decision making also supports the implementation and legitimacy of policies and major government reforms, supporting the realisation of the Government Programme. Clear business cases<sup>9</sup> for major initiatives such as the sub-national PARAS and ALKU reforms (see Box 1.3), or for the roll-out of Shared Service Centres, have not been clearly communicated throughout the public administration. As a result, there are no specific targets and/or success indicators by which to evaluate and to help communicate the rationale for these reforms.

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 and clarify options and potential consequences. This is of particular importance in Finland where there is no tradition of think tanks associated with political parties to generate and test public policies.

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 relationship between government and citizens characterised by consultation and collaboration.

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

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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 ways of life, governments can no longer address these issues alone. Partnerships with citizens, business, civil society organisations (CSOs) and other stakeholders are needed to achieve whole-of-society objectives. Engaging citizens and allowing them to actively participate with government in addressing these issues increases opportunities for strategic insight.

Openness is an underlying value in the Finnish administration. However, the Finns themselves note that interest in citizen participation seems to be periodic. Over the last 10 years, government 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. This led to discussions within government on strengthening the role of civil society. As a result, during the late 1990s the Finnish public administration undertook a number of projects and development initiatives to increase the role of civil society in defining social matters and public services. Citizen participation was the goal of one of the first horizontal Policy Programmes – the 2003 Civil Participation Programme – where the government's emphasis shifted from information to consultation and participation.

Citizen engagement policy in Finland remains weak, however, despite goodwill and efforts in some parts of the national public sector. The value of engaging citizens is not widely recognised in Finland. There is still quite some political attention for improving citizen involvement in policy; however, some worry that if this support decreases, interest in citizen engagement will fade away, as this way of working is not usual business in the public administration, particularly at the state level. Consequently, the capacity of the public administration and government to achieve strategic insight will regress.

A key factor in the perceived distance between the state and the citizen is a lack of citizen consultation in the political process at the state level of administration. Individual citizen engagement seems to occur more at the municipal level and less at the state and political levels. Both municipalities and CSOs have suggested that neither the state administration nor government are in tune with the needs of citizens and are not taking these into account when developing national policies and legislation.

With decentralised power structures, it is essential that the state have an effective steering role and capacity for strategic insight. As such, it 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 ever-increasing complex policy problems. It has been suggested that staff employed in the state government needs to learn how things work on the ground at the local level; that knowledge transfer between municipalities and the state is necessary. Direct contact with citizens for consultation and participation are also needed at the state level.

Some observers feel that there is too much emphasis in Finland 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 towards direct public engagement. While electronic methods can be highly efficient, in many cases engagement appears to work best through face-to-face contact, as illustrated 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, also provides a good example of engaging citizens through a number of customer-service monitoring mechanisms, including holding working groups with stakeholders.

While the engagement of representative bodies at the state level does take place, this may be declining. Where CSOs and unions were once consulted prior to government decisions and again 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. The decline in influence may also be due to the short timeframes provided by the state when seeking input or comment.

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 inaction. Finnish policy makers 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 better engage citizens and help them understand (and participate in) the difficult choices that are currently facing policymakers.

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 consensus about the direction of citizen engagement and the means to further advance such efforts. Citizens want feedback on what happens to their input of ideas; however, the state is currently 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.



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

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Strategic foresight reporting is another essential component of achieving strategic insight. By scanning ahead to identify future risks and opportunities, governments can better prioritise and focus policies. Finland has used government foresight reporting 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, and provided a plan for the kind of future society that the Government was seeking to establish through its actions when in office.<sup>10</sup> 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 cross-cutting issue area (e.g., 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 range of policy challenges and opportunities on the horizon and impacts the government's capacity for strategic insight.

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 contained therein. 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 map issues at a whole-of-government level. 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.

Futures reporting, in its currently form, is a relatively work-intensive process. To some extent, this is necessary to help create the space to think strategically beyond immediate deliverables. The government could make better use of its existing data, however, to identify patterns that merit additional follow up and research, and trends that extend beyond the scope of a single sector. It could also better co-ordinate different sets of futures work in universities and government agencies. Greater awareness of and more explicit reference to the different sets of futures work (including opposing scenarios) would help provide a common basis for discussion and debate.

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 a shared vision is active engagement of society's actors in its development – which requires embedding a culture of open and transparent government at all levels of public administration. The values and standards by which public servants work and measure performance must be “updated” to match the changes being brought about by complex policy challenges and citizen expectations.

Finally, the follow up and feedback provided on futures reports could help highlight the importance of this type of strategic planning to government policy-making. While not all issues raised will be prioritised on the government's agenda, feedback can help sharpen the strategic 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.

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### *Strategic insight provides the tools to create a strategic vision*

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Strategic insight provides the basis for governments to create a strategic vision for the country and for the public administration based on available information and input from citizens, businesses and civil society, keeping in mind future opportunities and risks. If communicated effectively, strategic vision can be a powerful tool for transmitting public values and objectives and as a basis for co-ordination and collaboration.

In Finland, each government's strategic vision is communicated through the Government Programme, a plan of action agreed by coalition partners that sets out the main tasks facing the incoming government. In 2003, horizontal Policy Programmes were added to the Government Programme as a means of better identifying horizontal priorities. Following from the Government Programme is the Government Strategy Document, the government's annual plan. It presents outcome targets on Policy Programmes and contains indicators for monitoring the implementation of the Government Programme.

While the Finns have a strong Government Programme, many officials interviewed by the OECD felt that the government's strategic vision was not sufficiently clear and that it was uncertain how some programmes were related or linked together. Strategic insight alone will not provide governments with the flexibility and agility needed to adapt to the changing and increasingly complex policy environment or the collective commitment to adhere to the strategic vision.

### ***Collective Commitment***

Adherence and commitment to a common vision provides a framework for societal actors to identify the subsidiary actions needed to realise shared goals. 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.

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

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While the 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 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. Horizontal priorities do not seem to flow down with clear incentives to 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 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.

A silo-based approach to policy development and implementation is one of the most significant problems in the Finnish public administration. Continuing silo-based thinking and ways of working limits the public administration's ability to flexibly respond to government needs and to harness collective momentum to commit 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 shown how horizontal co-operation will benefit them, and so lack incentives to collaborate (or sanctions for non-collaboration). A major lever for horizontal collaboration is to link performance management with strategic planning and budgetary frameworks. This strengthens both organisational and individual commitment to a shared vision and provides the accountability and incentive framework for working horizontally.

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*Performance management does not provide an incentive for collective commitment to whole-of-government outcomes*

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The Finnish state performance management system 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 by filtering down performance objectives within their organisations from senior management through to junior staff.

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 processes 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 factors: 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.

The Finnish National Audit Office (NAO) inspection reports have repeatedly noted shortcomings 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 widely reported (in 2008) on the inadequate functionality of governing by information in social and healthcare services. The Ministry of Finance has recently commenced a major review of the performance-management system at the state level.

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 in 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. 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 should start with permanent State Secretaries and filter down through the administration. The role of public servants to work collaboratively and co-operatively should also be supported as a means of strengthening service to the whole-of-government rather than limited to one ministry or agency.

Another reason for insufficient linkages to strategic objectives is the lack of connection between the state ministries' targets and agencies' ability to negotiate resources allocated to achieve these targets. The fact that performance and budgeting are undertaken in separate departments within the Ministry of Finance re-inforces the missing linkages across these two critical areas. The Ministry of Finance's perceived pre-occupation with fiscal objectives could perhaps be tempered by better incorporating the work of the Public Management and Budget Departments, 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.

In widening the scope of performance management, the government has had great difficulties measuring municipal productivity and efficiency. State officials have raised concern over 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 provision has made data collection on performance historically late, inaccurate, unreliable and incomplete. As public-service provision is managed both at the state and local levels, responsibility for data quality is dispersed. While periodic studies provide municipal performance rankings for primary and high-school education and health services, for example, 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 citizens as a means to promote "bench learning", sharing of good practices and yardstick competition.

Looking to the future, Finland shares a challenge with other OECD countries: how to use its performance-management system to support accountability for cross-cutting priorities. 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. 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 the broader society. The real challenge is how to translate broad strategic outcomes into tangible strategic objectives for each ministry that filter 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.

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*Institutionalising horizontal co-ordination and collaboration  
requires changing traditional ways of thinking and working*

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Given Finland's past performance, there is no doubt that the public administration will continue to successfully implement the government's agenda in the 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 efforts to compel this way of working, 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 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 in 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.

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 for both the strategic development of government policies and the implementation of a whole-of-government agenda. Coherent vertical and horizontal co-ordination and collaboration in the implementation of the government's strategic agenda improves the public sector's ability 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.

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 to 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 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, the link between strategic objectives and operational measures is missing.

Outside the scope of the horizontal Policy Programmes, there are examples of highly successful horizontal co-operation, but these are mainly in relation to policies where there is an impetus to come together and succeed at a national level, such as country defence and international forums like EU affairs. In these examples, horizontal working is achieved through a clearly defined framework agreed by all actors. The Ministry of Defence – with responsibility for co-ordinating the cross-ministry and cross-society functions of society which are imperative at a time of war or crisis – is an excellent example of marshalling horizontal working relationships within the public administration and with external stakeholders through the comprehensive society approach. However, despite the good examples of horizontality in action, the challenge for Finland will be how to achieve horizontal working across the whole public administration.

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*Effective leadership is a key condition for managing change to achieve collective commitment*

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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 integrating strategic and innovative thinking and horizontality into every day work in the Finnish public sector. Leadership can be discussed at many levels: political/administrative interface; across the public administration through the centre of government; and at the individual level within ministries and agencies.

*Leadership at the political/administrative interface*

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 necessary trade-offs. Because they are in the public eye, ministers are held responsible for the actions of their ministries and departments. However, in Finland, the use of political State Secretaries has changed the leadership dynamic and is raising concerns regarding the politicisation of the public service.

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 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. Some believe that distance between Ministers and the bureaucracy has grown and led to a so-called “separation of powers” in policy development processes as well as a lack of connectedness between the government and the public service. This can also impact citizen participation and the use of evidence-based policy making to feed government decisions.

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 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 enhance their ability to serve the ministers.

Finally, the blurring of political involvement in the public administration is re-inforced by Ministerial responsibility for ministries, in particular as Ministers represent different parties within a coalition government. This feeds politicisation of the public administration and strengthens stove pipes where the public administration is unable (even when willing) to act as a collective whole; each separate ministry acts as an independent organisation loyal to a minister rather than working for the government of the day. Exploring collective responsibility of the Cabinet for the delivery of horizontal objectives in the Government Programme would be one way of re-inforcing accountability, and therefore leadership, for collective action.

### *Leadership at the centre of government*

Complex policy environments require a public administration that is configured 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 what are the appropriate governance arrangements, how to achieve them, and what are their possible consequences. 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 inter-dependencies across the administration.

When Finnish 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 Finns’ ability 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 must be compelled through the implementation of formalised structures and frameworks.

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 service to working horizontally in achieving the



government's agenda. Although in a coalition government, the role of the Prime Minister is not as strong as in single-party governments, but rather one of *primus inter pares* (first among equals), 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 this way. Aligning individual and collective interests through performance management provides incentives to embed collaboration and co-ordination across the administration.

Regardless of the system or time, however, the fundamental purpose and function of the centre and central agencies is critical to co-ordinating policy responses that are collaborative and coherent, especially in an environment of increasingly complex policy challenges. This does not mean that the centre should micro-manage the development and implementation of policy responses, but that it has a key role in strategic oversight of the whole-of-the public administration and thus is well-positioned to bring the right actors and leaders together to implement the government's strategic agenda.

The Prime Minister's Office has a key role 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 monitoring implementation of the Government Programme, the Unit is primarily dependant on self-reporting by ministries and agencies. While the Prime Minister's Office has a strategic, and forward-looking outlook, it needs to play a stronger role in ensuring that the rest of the public service also adheres to this vision.

The authority of the centre of government also depends on the interplay of responsibilities and power between the core ministries – 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 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.

#### *Leadership at the individual level within ministries and agencies*

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 –there is a need for strategic leadership at senior levels, team leadership at middle levels, and technical leadership among lower-level employees.

In Finland there is a reluctant leader's culture in public administration linked to the "tallest poppy syndrome". In many cultures, including 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 which may mean a missed opportunity 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 in contrast to the private sector. The public-sector culture of expertise also means that leaders should not be seen as being higher than the experts they are leading (which is 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.

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 e-government development, which works through persuasion and provision of resources and technical assistance, rather than a central body 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 1.2).

Leadership is needed to manage change. The almost continuous process of public sector reform 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 integrated into working methods and internalised. Otherwise, projects risk being neither fully implemented, nor given appropriate time to become established before they are modified or reformed again. Continuous reforms also impact 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*.

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. Preparation for a smaller public service must be thought of in terms of the capability to take on and lead greater responsibilities and not simply in capacity or numerical terms. 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.

### ***Resources Flexibility***

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.

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

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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.

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 the 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 cannot be moved.

The disconnect between the preparation of the Government Programme and the budget framework impacts 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 its budget allocation can best realise the priorities laid out in the Government Programme. When the Government Programme is prepared at the start of a new government term, however, there is no formal stocktaking of the projects and programmes currently funded and whether they should continue to be funded. In this sense, the new Government Programme is layered on top of former priorities. This makes it difficult to know where to focus work and creates a budget environment where the government is not forced to prioritise its objectives, creating a vacuum for political accountability.

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 to meet this responsibility and cannot require other participating ministries to share resources. Lead ministries only have "the power to beg". This provides a disincentive to both 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.

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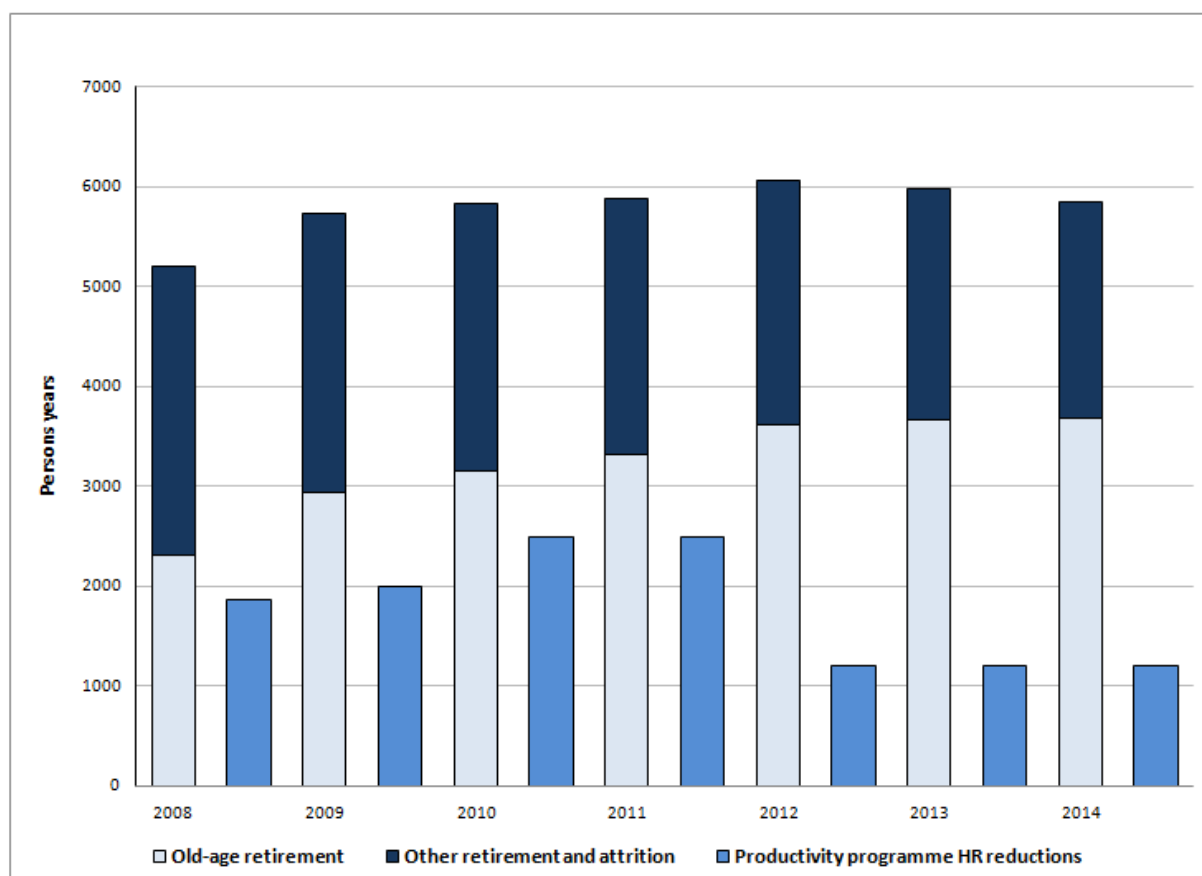
*Sustainability of the Productivity Programme will depend on a concerted effort to support public sector innovation*

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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, improving exploitation of ICT and enhancing central government processes, with a view to permanently reducing government staff numbers and improving labour competitiveness, curbing expenditure growth and increasing the potential to re-allocate 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 (See Figure 1.4).<sup>11</sup>

**Figure 1.4. Central government human resources attrition projections and Productivity Programme HR reductions, as at January 2009**



Source : Ministry of Finance, 2009a, Finland, p27.

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 – with the notable exception of shared services. Some feel that staff cuts have actually limited organisational capacity to develop innovative ways to increase productivity, and risk 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.

The Productivity Programme has effectively forced ministries to review their operations and come up with efficiency proposals that appear to have led to innovation in some cases. It has contributed also to the public service’s relative state of fiscal health. Following initial identification of “low-hanging fruit”, however, the programme will be increasingly pressed to look explicitly at *how*, and not just *where*, efficiencies can be achieved.

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 – limiting opportunities for self-administered re-allocation. The Productivity Programme 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 help identify innovative practices that could be generalised and reinforce the capacity of the Productivity Programme to help redirect resources to priority areas.

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

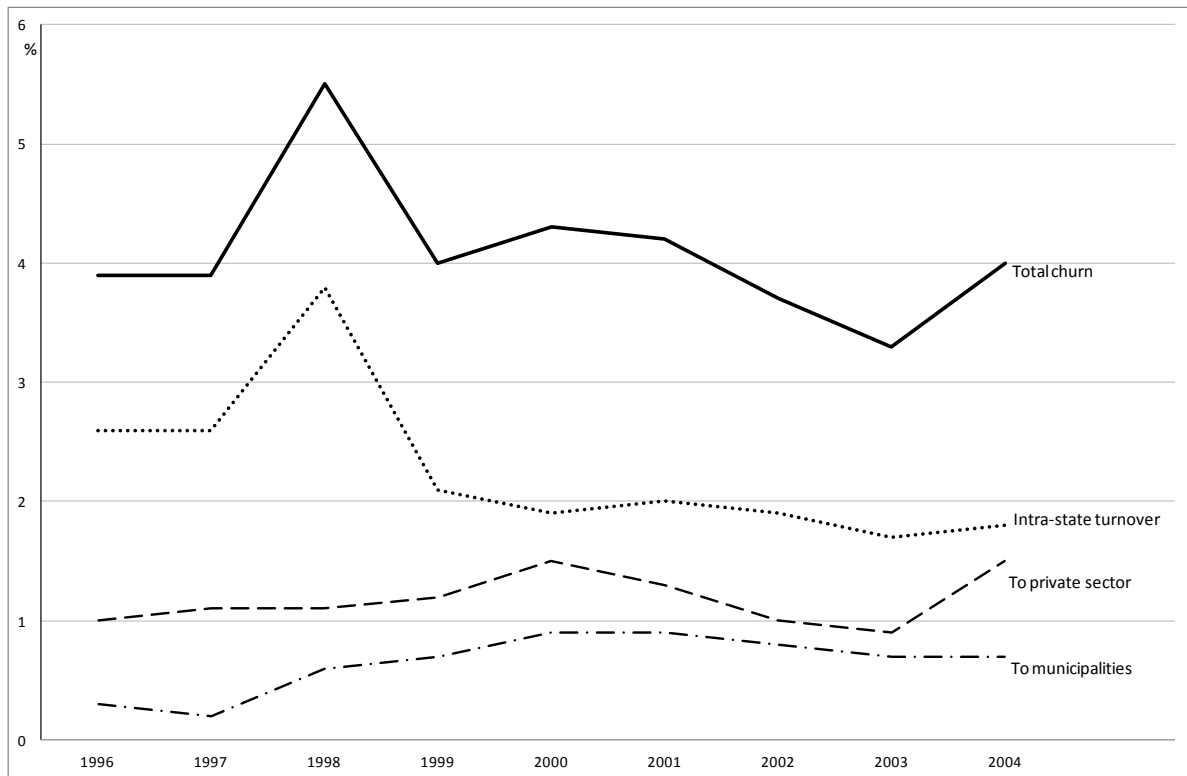
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Along with financial resources, harnessing resource flexibility in the pursuit of strategic agility also includes ensuring that the public administration's key assets – its staff – have the capacity and capability to achieve strategic agility, which 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 a large number of expected retirements over the next five years. While this situation has a high risk of paralysing 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. A number of challenges in the current systems present major barriers to moving forward to become strategically agile.

*Low workforce mobility*

The Finnish public administration system develops and values highly specialised expertise over generalist management skills, contributing to a lack of workforce mobility. In the Finnish public administration there is little mobility of staff across ministries at the state level (see Figure 1.5), between the state and municipal levels of administration, and between the public and private sectors. The lack of mobility encourages ministry silos at the state level, which create 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 citizens by impeding cross-fertilisation with municipal staff. The lack of public/private mobility inhibits the injection and adoption of private sector innovation.

**Figure 1.5. Staff mobility in the Finnish State Public Administration (1996-2004)**



Source : Ministry of Finance, Finland

Nothing prevents mobility in Finnish public administration as such, but a resistance to moving around may be a characteristic of Nordic culture. Personal preferences were mentioned as a key reason for the low workforce mobility – with the barrier to mobility being a collective cultural mindset. In relation to state/municipal mobility, there is a strong passion for municipal work in Finland, so staff may prefer not to transfer to posts in the state administration. However, a number of people interviewed by the OECD who were in state leadership positions had worked either in municipal administration or the private sector. One hypothesis is that there is more mobility at the higher levels of the public service. 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 leads to a risk that very low mobility in feeder groups will intensify ministerial silos and have a negative impact on horizontal working relationships.

#### *Workforce capacity*

Due to the demographic age imbalance in Finland, it is estimated that by 2020 half of the current personnel at the municipal 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 three to five years (80% of senior leaders). This staff turnover provides an opportunity for change and renewal. However, the significance of these retirements is not to be underestimated. A significant public administration capacity issue will first need to be negotiated, at both the local and state levels of administration. To maintaining civil service levels, to the Finnish government will be required to recruit 20% of the available workforce in the coming years. In addition, there is also an urgent need for a transition strategy for leadership renewal

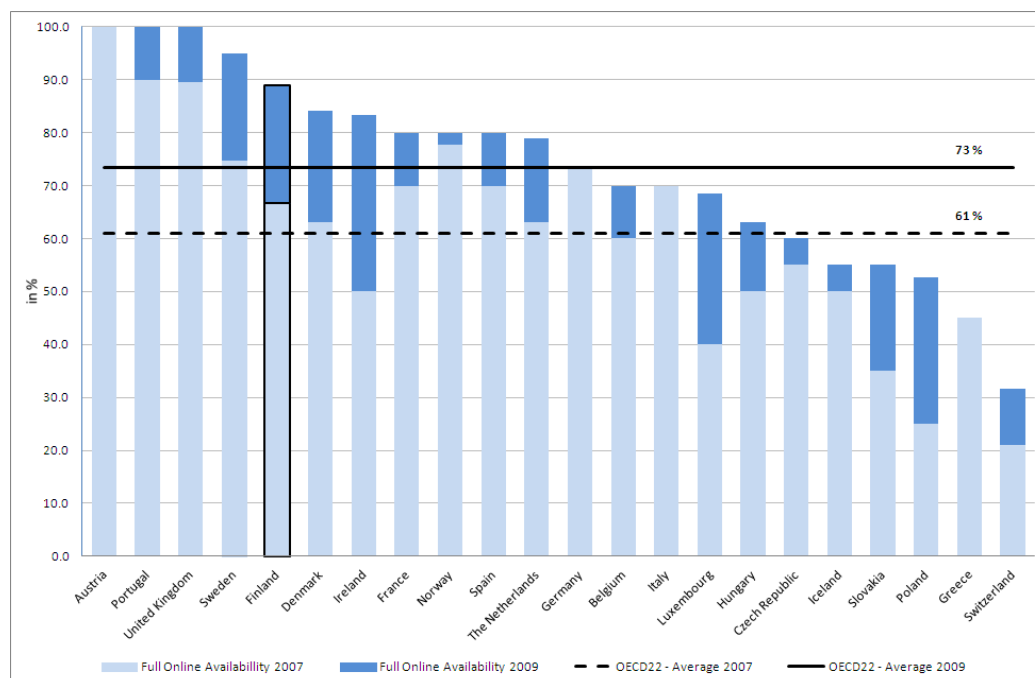
ahead of the planned retirements. The government is aware of this problem and has been trying to put measures in place to mitigate its impact, for example, by extending the retirement age and providing leadership training for those under age 45. It has not had much traction, however, in focusing the attention of the political level on this issue. Workforce capacity provides a justification for e-government and the Productivity Programme reforms; rather than replacing staff, 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 1.2. E-Government - the consequences of a lack of strategic agility

Until recently, 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 (50% on average), citizen usage of e-government services is still well above the OECD average of about 35%. However, in recent years, Finland's position as a leader in e-government has been slipping; this has perplexed the government, which sees strong e-government as a factor for Finland's competitiveness.

In the period 2004 to 2009, Finland dropped from 4<sup>th</sup> to 8<sup>th</sup> in EU rankings for full online availability of e-government. This is a challenge shared by many other leading e-government countries in the OECD as other countries look to their example in order to catch up. However, between 2007 and 2009, Finland improved its ranking from 10<sup>th</sup> to 5<sup>th</sup> among the 22 OECD countries which are also members of the EU. (See Figure 6.) Finland's online sophistication (as at 2009) measured 94%, where the overall sophistication score for both citizens and businesses were above the OECD22 average. Figures from 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.

Figure 1.6. E-Government full online availability in the EU (2007 and 2009)



1. 2009 data for Turkey not available.

Source: EU (2009) Smarter, Faster, Better eGovernment, 8th Benchmark Measurement, November 2009.

There is a high degree of political awareness and attention being given to information-society policy and e-government in Finland. The government included information-society policy as one of the first four Policy Programmes in 2003 in order to encourage greater whole-of-government action. This focus has helped to successfully integrate back-office services (e.g. corporate HR and financial services) in the state administration. 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.

The SDe Programme, introduced in 2009, is now trying to also join-up front-office services for citizens and businesses, including across levels of government. It has shown strong leadership and consultation in identifying areas for shared services and leaders to take these services forward. It has not yet developed a plan, however, to consolidate newly developed shared services. Such a step is necessary in order to harvest and re-invest savings for additional e-government development.

Despite the increased focus on ICT reform at the political and strategic levels, the various ICT reforms are not well co-ordinated with one another – particularly across the state and municipalities – or with related reforms that can serve as drivers for the use of ICTs, e.g., the Productivity Programme. At the state level, ministries have divided up responsibility for efficiency gains through ICT rather than collaborating to achieve cross-cutting benefits from shared services. There is still an urgent need to harmonise ICT infrastructure across all levels of public administration. The government faces even greater challenges at the local level due to municipal autonomy and a large number of legacy systems.

The government is aware of the need for change in the area of ICT, but has not been able to gain traction. While public ICT governance was decentralised in Finland during the 1990s, the Ministry of Finance is now aiming towards a more centralised ICT governance model to achieve greater progress – through, for example, harmonized standards and frameworks within and across levels of administration. While centralised decision making is not always a feature of successful technology introduction, it may be necessary to drive ICT standards, the mutualisation of ICT systems and services, and the development of integrated citizen-centric services.

## Multi-level Governance

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

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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 key stakeholders requires the central government to adopt a stewardship role rather than bearing full implementation responsibility itself. 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 capacity building at the sub-national level by providing tools to enable local initiative.



### **Box 1.3. Sub-national reforms - the ALKU and PARAS reforms**

Finland has recently implemented two reform processes aimed at strengthening the municipal and regional levels of administration – the PARAS and ALKU reforms. The objective of the PARAS reform, currently underway, is to ensure a sound structural and financial basis for municipal services in order to secure the organisation and provision of these 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.

The ALKU project, which was recently completed, was intended to rationalise the 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 was to increase the powers of the 19 Regional Councils to bring together and co-ordinate regional development activities, and to give the Councils increased responsibility for strategic tasks. Existing regional state authorities (of which there were 54) were merged into two new regional state administrative authorities: the Regional Administrative Agency (AVI, six agencies) and the Centre for Business and Industry, Transport and the Environment (ELY, 15 centres).

A key example of the importance of strategic vision is in the implementation of sub-national reforms (See Box 1.3). The PARAS and ALKU reforms highlight the importance of using business cases to determine when and how reforms should be implemented. The rollouts of both the PARAS and ALKU reforms seems to have resulted in confusion among some municipalities as to the government's strategic objectives and the benefits these reforms would create. This may have led some municipalities to "sit on the fence" and put off implementing reforms until they saw which types of reform had the most government support (municipal amalgamation versus enhanced co-operation). 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.

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. A lack of communication of the strategic vision and target setting means that it is difficult to determine the success of the reforms. For example, thus 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 are of the view that the number of municipalities should be significantly reduced, to perhaps around 100 municipalities. Because 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.

The use of business cases has the benefit of 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. These documents lay out strategic aims for regional bodies tied 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 linked to

their Strategy Document, 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.

These strategic planning documents result from efforts undertaken during the rollout of the programme; however, they 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 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 how the PARAS and ALKU reforms interact, how individual authorities stand to benefit, next steps and future vision, and how individual authorities can make informed decisions on how to implement reforms.

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 levels work together to develop a clear strategic vision for sub-national arrangements and strive to maximise coherence in any new sub-national policies. Perhaps such an overall strategic vision for the sub-national level could be to gain agreement to maximise areas based on their differences. This scenario could enable multiple models of regionalisation based on the needs of the particular area: for example, a region-based development model could be used in 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 levels will require collective commitment by both levels to ensure the outcomes are achieved.

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

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Municipal autonomy in Finland is enshrined in the Finnish Constitution and affects interactions between the national and sub-national government. It is important for both national and sub-national actors to realise, however, that collective commitment is needed precisely because failure to act in a unified way will endanger their ability to meet societal obligations and demands. Moving to an environment of collective commitment across sub-national governments will require a new relationship between the state and sub-national levels. Given Finland's past experience, collective commitment will require the state 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.

The recent implementation of the ALKU reform provided an example of the need for collective commitment at the sub-national level. While the objective of the ALKU reform was to improve regional co-ordination and co-operation between state sectors, there is a view that the reform did not go far enough. 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 municipal-based, bottom-up Regional Councils. Linkages between the ELYs and Regional Councils are in place. Further building

and strengthening their relationships will improve opportunities for coherence. Despite this, 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.

Collective commitment at the sub-national level can be difficult to achieve, but it does exist in Finland. The key to achieving such commitment, however, appears to be changing the relationship between the state and sub-national levels. The Regional Cohesion and Competitiveness Programme (Coco) provides a good example of the national and sub-national levels' ability 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 among 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 bottom-up participation and ideas generation. The state actively consults with municipalities and collects and collates ideas from the local level as part of the Coco agenda. In this way, Coco provides a successful model for collective buy-in at the sub-national level.

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

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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 with close to 40% of total government expenditures at the sub-national level (See Box 1.4.).<sup>12</sup> 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.

Some officials have told the OECD that the PARAS reforms will not strongly increase efficiencies for a number of reasons: that rules of engagement for co-operation among municipalities are too loose and 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 mergers undertaken and admit that the ability to achieve innovation in service delivery (which should lead to efficiencies) will be some years off. Municipalities fear 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. In fact, it was suggested by some municipalities that stage one of the merger is to implement administrative changes and stage two will be to examine and implement innovations in service delivery practices.

In looking at recent history, municipal capacity to maintain efficiency gains in Finland has been low. In the 1990s, municipalities ran out of funds and investment levels were at zero. They addressed this issue through workforce reduction. 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 re-invest funding into the municipalities, the money was used for postponed investments and for re-staffing. Once staffing levels were back in place, there was a noticed productivity drop. In other words, reductions made due to the crisis were not maintained once the crisis passed. In the context of the current crisis, this may be happening again; municipalities are reducing expenditures, not through structural means, but through emergency measures, such as reducing staff, giving holidays and temporarily closing schools.

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 and 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 1.4. Basic Services Programme - responding to the need for increased capacity**

Basic services – *e.g.*, primary and vocational education, primary health care, basic social services – are funded in part by state government, while legislation provides for a minimum standard service level for certain services. 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 and financing of local government services, and to improve linkages across lines of service delivery to encourage innovation and to build local capacity. The programme aims to introduce a new model of working across 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. Its 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, trends in local government finances and changes in local government functions, and draws up a plan of the measures required for balancing revenue and expenditures.

In an increasingly tight fiscal environment, a key challenge for the central government is how to monitor the effectiveness of local governments' spending. 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 aimed at driving efficiency, productivity, innovation, and service-quality improvements.

There is also a need to balance the fiscal capacity of municipalities (and of central government) with citizens' expectations (and the Constitutional requirement) of effective public services 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 need to be educated about a looming need for a trade-off between maintaining high-quality, widely accessible 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, usage and cost 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; minimum payment levels are identified in legislation, but 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 seek 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 re-inforced 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.

While the financial situation of the sub-national level is a critical issue, so too is its capacity to absorb reforms 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 around 90 000 staff at the various levels of state government<sup>13</sup>. A stewardship relationship is therefore needed between central and sub-national government, and with key stakeholders such as the Association of Finnish Local and Regional Authorities. Such a relationship would be based on developing commonly agreed expectations for 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 necessary to make this new relationship a reality.

## Conclusion

The current set of public administration reforms in Finland is comprehensive and ambitious. These reforms seek to strengthen the existing system, but they do not seek to fundamentally change it. To sustain the current structure for public services, however, Finland may need to be even bolder and to go further in its reforms in order to achieve the strategic agility 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 among 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.

Many, if not all, of the elements discussed in this report are either already in place or are being explored by the Finnish government in its continuing efforts 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 governance framework and building a new relationship among 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.

## KEY RECOMMENDATIONS

### Key Recommendations: Strategic Insight

#### ***Raise expectations and capacity for analysis to support policy development.***

- Require and diffuse ex ante business cases and implementation plans for major initiatives above a certain cost threshold, including new initiatives negotiated under the coalition agreement (i.e., the Government Programme). (See also recommendations under Resource Flexibility).
- Make better use of existing operational data for trend analysis and horizon scanning, and use this to complement vertical futures reporting to support a constant scan of upcoming challenges and opportunities.
- Rebuild legislative drafting and analytical capacity in ministries.

#### ***Build and maintain stakeholder buy-in by reinforcing engagement and communication with citizens, civil society, social partners, and local government.***

- Design and implement a broad citizen engagement strategy that creates an enabling environment for stakeholder engagement by state government with a focus on values, tools, and frameworks to decide when and what type of engagement is appropriate in order to achieve desired results (rather than a mandatory tick box approach).
- Improve co-ordination with universities and agencies to harness analytical work for policy-making. A Futures Summit would be one way to focus attention on existing work and to promote dialogue on possible policy directions.

### Key Recommendations: Collective Commitment

#### ***Align incentives to build collective commitment for horizontal ways of working.***

- Make an explicit statement of public sector values, and use it as a basis for decision-making and issues framing; as a criteria for individual performance management, recruitment, training and development; and as ground rules for supporting dialogue at the political-administrative interface.
- Make the budget an integrated planning tool for resources and results for all levels of the public administration.
- Use long-term fiscal projections and legally-binding medium-term expenditure frameworks to make sure that the relevant planning processes are undertaken and stay within a reliable and sustainable fiscal framework.
- Integrate the results of audit assessments and other evaluations into budget documents.



***Strengthen public sector leadership capacity.***

- Make better use of the Permanent Secretaries Working Group for decision-making and co-ordination.
- Develop next-generation leaders, e.g., those just below the Permanent Secretary level, by increasing networking and development opportunities targeted to this group.
- Design a more explicit mobility policy, e.g., mobility as a requirement for leadership development.
- Facilitate the development of networks that extend beyond the boundaries of the public service in order to consolidate values among actors in order to foster the sharing of values around common policy areas.

***Better align leadership, governance structures and strategic objectives.***

- Strengthen central leadership and accountability for areas with clear whole-of-government objectives, e.g., the horizontal Policy Programmes, SAdE. (see recommendations in the next set of bullets on Improving delivery of objectives in the horizontal Policy Programmes)
- Provide an enabling environment – e.g., communication of plans and objectives, technical implementation assistance – for reforms predicated on voluntary co-operation, e.g., the PARAS municipal reform.
- Strengthen e-government leadership and co-ordination in appropriate areas:
  - Ensure strong, centralised leadership on setting standards and assuring interoperability.
  - Create an enabling environment with technical and ICT assistance in order to improve implementation.
  - Strengthen central control, e.g., the ability to shut down redundant services, where objectives require a single approach.
  - Improve governance of back office shared services, e.g., maintain some competitive pressures, cost control measures, improve data on baseline costs.
  - Reassess strategic objectives: should objective be to improve international rankings or to create value?

***Improve delivery of objectives in the horizontal Policy Programmes by increasing both accountability and resources.***

- Over the long-term, consider instating joint Cabinet responsibility for delivery of horizontal government objectives.
- Make programme directors of the horizontal Policy Programmes directly accountable to the Prime Minister's Office which has oversight for the Government Programme. Consider creating a Cabinet implementation review to monitor progress of major priority areas.
- Make funds available for the achievement of specific objectives within the horizontal Policy Programmes, contingent on a clear accountability agreement for achieving agreed objectives. Give the horizontal Policy Programme directors the authority to allocate (and withhold) funds to participating ministries.

### **Key Recommendations: Resource Flexibility**

#### ***Use the budget as a crucial tool to foster strategic agility.***

- Align the steering of resources and performances within the Budget, including very focused information on the financial and performance assessment of the respective budget cluster.

#### ***Put mechanisms in place to prioritise high-level objectives.***

- Assure the 'pricing'/cost estimate of the proposed Government Programme in order to ensure that it is consistent with available resources. This would also require the government to come up with 'offsets' to pay for the cost of new priorities, by identifying areas that are lesser priorities.

#### ***Put mechanisms in place to reassess needs.***

- Implement a systematic assessment and evaluation-culture to foster priority-setting and resource flexibility: introduce systematic ex ante financial and performance assessment of new legal regulations and programmes and evaluate the results after a certain period of time.
- Use the mid-term review as a means of reviewing the objectives of the Government Programme and not just to reassess implementation.
- Consider using programme review to eliminate and/or reduce 'programme spread' and to refocus the work of the public service on priority areas.
- Review internal red tape across government bodies in order to identify opportunities to further streamline operations and to increase efficiency.

#### ***Improve financial resource flexibility.***

- Increase flexibility of ministries and local authorities to use their existing authority to reallocate funds within their administrative sector.

#### ***Combine restrictive expenditure ceilings with full end-of-year flexibility for line ministries and administration units.***

- Improve inter-ministerial transfer authority by better linking medium-term budget frameworks with the achievement of performance targets.

#### ***Improve resource flexibility of people: strengthen capability to realise the government vision.***

- Align incentives and capability to innovate by tying soft tools that enable innovation, e.g., training, technical assistance, with hard tools that create pressure for innovation, e.g., Productivity Programme.
- In view of the aging workforce, do whole-of-government workforce planning to identify sector and cross-government hiring and development needs, starting with capability reviews.
- Build local capacity through comparison and benchmarking, sharing of good practice, networking, and mobility opportunities, e.g., through secondments.

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## Notes

- <sup>1</sup> The concept of strategic agility has been adapted from work by Doz and Kosonen (2008) for use in the public sector context.
- <sup>2</sup> See table 1.1 in OECD (2009) *Society at a Glance*, p. 11.
- <sup>3</sup> The economic analysis and projections in this document are based on the OECD Economic Outlook 85, June 2009.
- <sup>4</sup> Public debt: measured by general government gross financial liabilities as per cent of nominal GDP.
- <sup>5</sup> OECD Economic Outlook 85 Database.
- <sup>6</sup> Old-age dependency ratio: measured by the ratio of the population aged 65 over the total population.
- <sup>7</sup> OECD Statistics
- <sup>8</sup> Ministry of Finance, 2009a, p. 25.
- <sup>9</sup> 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.
- <sup>10</sup> Prime Minister's Office, 2007, p.12.
- <sup>11</sup> Ministry of Finance, 2009, p. 26.
- <sup>12</sup> OECD National Accounts Data.
- <sup>13</sup> 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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## ANNEX A - MANAGEMENT AND CONSULTATION

In January 2009, the Government of Finland commissioned a major review of the Finnish public administration which was undertaken by the OECD. The objectives of this review were to examine how a whole-of-government perspective can be fostered in public management areas such as e-government, accountable and open government, the structure of government and multi-level governance relations in order to promote a better performing, more forward-looking government that is better prepared to meet current and future challenges.

The review was conducted by the OECD's Public Governance and Territorial Development Directorate through a multi disciplinary team of OECD staff members and national experts from a number of OECD countries.

As part of the data collection phase of the review, the OECD met with a large number of key stakeholders at the political and administrative levels, as well as with representatives from civil society organisations and academics.

**Table A1. OECD Interviews: Political Level**

Members of the Parliament of Finland  
Parliamentary Audit Committee

Office of the Chancellor of Justice  
Ombudsman's Office

**Table A2. OECD Interviews: State Public Administration**

Ministry of Agriculture and Forestry  
Ministry of Defence  
Ministry of Economy and Employment  
Ministry of Education  
Ministry of Environment  
Ministry of Finance  
Ministry of Foreign Affairs  
Ministry of Interior  
Ministry of Justice  
Ministry of Social Affairs and Health  
Ministry of Social Affairs and Health – SATA Committee  
Ministry of Transport and Communications  
Prime Minister's Office

Finnish Environment Institute (SKYE)  
Finnish Food Safety Authority (EVIRA)  
Finnish Funding Agency for Technology and Innovation (TEKES)  
Finnish Road Administration  
National Audit Office  
State Treasury  
Statistics Finland  
The Social Insurance Institution of Finland (KELA)  
The Finnish Innovation Fund (SITRA)  
The Finnish Institute of Public Management (HAUS)

Retired Programme Director of the Civil Participation Policy Programme

**Table A3. OECD Interviews: Sub-National**

Association of Finnish Local and Regional Authorities

City of Helsinki  
City of Jyväskylä  
City of Kajaani  
City of Kauniainen  
City of Vantaa  
Lapinjärvi Municipality  
State Provincial Office of Oulu

Joint Service Centre of the Ministry of the Interior in Kajaani  
Measurepolis Centre of Measurement Technology Expertise  
One-Stop-Shop in Ristijärvi  
Self-government experiment in Kainuu  
Seniorpolis

**Table A4. Other OECD Interviews**

Katholieke Universiteit Leuven  
Michigan State University  
University of Helsinki

Confederation of Unions for Professional and Managerial Staff in Finland (AKAVA)  
The Trade Union for the Public and Welfare Sectors (JHL)  
The Federation of Salaried Employees (PARDIA)

Talent Partners

ADHD Association  
Finnish Association on Intellectual and Developmental Disabilities  
Finnish Federation of the Visually Impaired  
The Central Union for the Welfare of the Aged  
The Finnish Association for Nature Conservation  
The Finnish Red Cross  
The Mannerheim League for Child Welfare  
The Service Centre for Development Cooperation (KEPA)

# FINLAND

### WORKING TOGETHER TO SUSTAIN SUCCESS

Finland's traditional Nordic model is under pressure: a rapidly aging society, the global economic crisis and growing societal disillusionment require the public administration to be strategically agile in order to maintain fiscal sustainability and to respond to a complex and rapidly-changing environment.

The government's capacity to act in these difficult times will depend on the public administration's ability to work together – across the whole-of-the public administration at the state and local level, and with society as a whole – in order to sustain success and maintain its global position into the future.

This report is the second in a series of OECD country reviews that look at governance and public management issues from a comprehensive perspective. These reviews help countries to identify how reforms can better reinforce each other in support of overall government objectives. They also examine reform strategies that have worked in other countries and provide advice as to which reforms can be appropriately adapted to a given country.