



# Management agreement as a basis for management policy and a conducive management environment in central government

## Instructions for preparing a management agreement

### Management policy and management agreements in central government

One aim of the central government management policy is to enhance performance-oriented management and the accountability of managers. When a person takes up a managerial position, his/her personal aims must be defined, taking into account the present state and future challenges of the operating unit in question. The selection process for filling a managerial post must always include an assessment of the development challenges faced by the unit and of the main requirements for the post even before the vacancy is advertised. This allows the unit specifically to recruit a manager that is best placed to achieve the targets that the manager is expected to meet during his/her term the duration of which may be between five and seven years. A person in a managerial position must possess the will and the ability to function as a manager and a leader and the capacity to assume personal responsibility for the performance of the unit. These are the main requirements for a successful manager and for this reason the applicants' skills in these areas should be examined more carefully in the selection process. A person with managerial skills is not only in possession of the wide-ranging expertise required for the job but is also good at leading people.

The purpose of the management agreement is to provide a tool for setting targets for managers' work, for assessing their performance and for facilitating performance appraisal interviews between the managers and their supervisors.

### Parties to the agreement

The management agreement is concluded between a ministry and a department of the ministry or between a ministry and the top management of an agency or other operating unit coming under the ministry (for reasons of clarity, these are hereafter collectively referred to as 'operating unit'). The management agreement may also be concluded between a minister and the permanent secretary of the ministry. If the operating unit has a board of directors that concludes a performance agreement on behalf of the unit, or if a head of department is largely responsible for concluding the management agreement with an agency or other operating unit, the management agreement may, at the ministry's discretion, be concluded between (instead of the permanent secretary) the board of directors or the head of department of the ministry and the director of the agency or other operating unit. It is, however, important to ensure that the management agreement allows the establishment of a channel of communications between the permanent secretary and the head of the operating unit.

The agreement is concluded in connection with the appointment of the new manager and it normally covers the whole term, which may be five or seven years. The agreement may also be concluded with a manager who already holds the position. The targets set out in the agreement guide the manager's work and they are used as the criteria for assessing the manager's performance. The management agreement procedure also provides a framework for discussing the support needed by the manager.

When the permanent secretary prepares the management agreement and conducts annual performance appraisal interviews, he/she may be assisted, for instance, by the head of the department responsible for performance management in the ministry, the administrative director and/or the development manager assisting the permanent secretary in the strategic management of the administrative branch. The permanent secretary should play an active role in the preparation of the management agreement and in the discussions concerning it. Heads of agencies may be assisted by the administrative or other directors of the agencies in question.

### **Relationship between management agreement and performance agreement**

The management agreement procedure combines the development of managerial practices with performance management. The management agreement should be part of the operating unit's steering process and thus compatible with the performance agreement and the framework budget (spending limits) laid down for the unit. From the point of view of measuring the results, it is recommendable for the management agreement to be, to the extent possible, based on the same indicators as the performance agreement. The management agreement should convey the view of the ministry's permanent secretary regarding the state of the operating units of the administrative branch and their development needs, and the prioritisation of the most important targets. The management agreement should describe how the operating unit is expected to develop and what the manager is expected to do to achieve this. The management agreement should be strategic and target-oriented in nature, and provide the managers and their supervisors with a better basis for an extensive strategic dialogue and a procedure for the dialogue.

The management and performance agreements are also the prime instruments for promoting objectives common to all areas of central government and they also provide a solid basis for a preparatory process that is based on horizontal and cross-sectoral aspects. Group-level objectives are part of the management process and they should also be seen in the targets laid down for the managers and their work. At their best, management agreements help to promote administrative reforms and support the management in the implementation of the reforms.

Provisions of the performance agreements should not be transferred into the management agreements word by word. The performance agreement guides the organisation, while the management agreement guides the work of the manager. This means that the management agreement is a management tool and a tool for developing managerial practices that is closely connected with the organisation-internal management system, and unlike the performance agreement it is not an instrument for guiding the tasks of the organisation. Nevertheless, in both documents, consideration should be given to cross-sectoral targets that the ministry in question shares with other ministries or that are similar to the targets of other ministries. While the performance agreement defines the targets of the operating unit ('what should be done'), the management agreement sets out what the manager should do in order to achieve the targets ('how it should be done').

Except for the personal assessment and any other possible sections that are to be kept secret, the management agreement is a publicly accessible document.

### **Assessing the targets set out in the management agreement and performance bonus**

The manager's performance is assessed on the basis of how well the operating unit achieves its performance targets. The views of the central government actors, clients and the personnel should be considered and evaluations and/or indicators describing, among others, productivity changes development, client satisfaction and job satisfaction among the personnel (such as results of client and personnel surveys) should be used as assessment criteria. The 360-degree assessment, in which consideration is given to a wide range of different views, is recommended to be used as the assessment method.

The impact and attractiveness of the management agreement as a management assessment and development tool can be enhanced by including in the agreement a performance bonus, which depends on how well the targets set out in the agreement are achieved. The performance bonus is paid from the funds that become available for the purpose as a result of successful operations (using the funds appropriated for the unit for operating expenses). A performance bonus always requires a written management agreement. The meeting of the targets set out in the management agreement for the whole agreement period is assessed on a yearly basis by comparing the actual performance with the annual targets.

Instructions concerning the performance bonus procedure are contained in the Ministry of Finance decision VM 005:00/2005 (10 November 2009) on the performance bonus scheme for the highest-ranking civil servants in the central government.

## Annual performance appraisal interviews

The managers and their supervisors should conduct performance appraisal interviews in the same manner as all other members of the personnel. In addition to the targets, direction of the operations and performance assessment, the performance appraisal interview should also be about the development of the appointee in the managerial job. The discussion should take place at least on a yearly basis and whenever necessary.

In the annual performance appraisal interview carried out early in the year (by mid-April at the latest), the manager and the supervisor should make a systematic assessment of how the annual targets set out in the management agreement have been met, how the manager has succeeded in his/her job and what needs to be changed. The assessment can be made after the agency has presented its financial statements but should be produced by the end of March at the latest. The permanent secretary will assess the manager's performance, if necessary in cooperation with the board of directors or the head of department that concluded the management agreement with the head of the operating unit on behalf of the permanent secretary. If the payment of a performance bonus is set out in the management agreement, the permanent secretary will make a proposal on the payment of the bonus to the Ministry of Finance by the end of April. The Ministry of Finance will decide on the payment of the performance bonus so that any bonus can be paid in July at the latest. The performance bonus may amount to a maximum of 8 per cent of the manager's yearly salary.

During the management agreement process, consideration should also be given to different ways of rewarding personnel (including financial rewards based on the unit's performance).

If necessary, the manager and his/her supervisor may also conduct interim or half-yearly performance appraisal interviews in which the manager reports on how well the unit is achieving its annual targets and assesses his/her own performance and workplace well-being and any need for development or support measures he/she might need. This gives the permanent secretary a chance to get up-to-date information from the manager also between the actual performance appraisal interviews. The discussions also provide an opportunity to talk about the strategic development needs concerning the unit that have not (yet) been addressed in the management agreement.

If, after the conclusion of the agreement, it becomes necessary to change the operating practices or the development plan of the unit for reasons that were not known at the time of the conclusion of the agreement (for example as a result of changes in the operating environment), the short-term or long-term targets set out in the management agreement should be revised. The best way to do this is in connection with the annual performance appraisal interviews. However, in urgent situations the changes should be made without waiting for the next regular interview. It may also be appropriate to further specify the annual targets for subsequent years.

### Management agreement and performance bonus procedure in a nutshell

The strategic discussions on the content and target-setting of the managerial assignment are carried out and the agreement is concluded.	Always in connection with a new managerial assignment but may also be made with a manager who already holds the position.
Annual performance appraisal interviews and assessment of the annual targets	By mid-April each year
The permanent secretary submits the assessment results and the proposal for the performance bonus to the Ministry of Finance.	By the end of April
Ministry of Finance considers the proposals.	By mid-June
The performance bonus is paid.	In connection with the payment of the July salary at the latest
Half-yearly performance appraisal interviews (if necessary)	In August-September or as necessary

### Content of the management agreement and the forms used

*At least the following should be entered in the management agreement:*

- ▶ parties to the agreement
- ▶ agreement period
- ▶ strategic development targets of the operating unit (for the whole agreement period and for each year)
- ▶ assessment principles and methods and any indicators.

When preparing the management agreement, the forms appended to this memorandum regards the management situation at the time of the conclusion of the agreement, the development targets and the assessment of the achievement of the annual targets are to be used. These forms and the management agreement itself are publicly accessible documents, except for the personal assessment and any other sections that are to be kept secret.

The management agreement form is appendix 1 (JS1) to this memorandum. The description of the current management situation (JS2) and the development targets (KT) are appendices 2 and 3 to this memorandum, respectively. It is not necessary to use the form JS2 if the assessment of the situation can be carried out by other means. The development targets form supports the planning process. In the completion of the form, particular attention should be given to the information concerning the targets for the first year and later on each following year, while the targets for the subsequently following years should be described with sufficient accuracy. This is necessary to ensure that the strategic plans and visions for the agreement period are detailed enough. An assessment of the manager's performance should be given on form 4 (JOA).

### Management agreement form (JS1)

On the management agreement form, four development areas coming under the management of the operating unit are listed: management and leadership, personnel, service performance and quality and productivity. The agreed content of these areas and the target for the whole agreement period should be summarised on the management agreement form. These should be specified on the form concerning the development targets so that particularly the targets for the first and each following year are given as precisely as possible (also using numerical indicators).

The sections on service performance and quality and productivity are connected with the impacts and success of the operations, in parallel with the capability of the personnel and high-quality and effective management.

The development targets should be specified by development area in accordance with the division set out on form JS2 (separately for management and leadership, personnel, development of services and improvement of productivity). The development areas may also be emphasised in different ways, depending on the management task and situation. Example of targets for individual development areas:

***Management:***

- ▶ agreeing on a joint mission, targets and operating principles
- ▶ developing the management system
- ▶ developing one's own managerial approach, inspirational management and supervisory work
- ▶ selecting the right persons for the next management tier
- ▶ improving the capability of the organisation
- ▶ giving feedback and rewards
- ▶ building and using networks and stakeholder groups
- ▶ strengthening cross-sectoral cooperation

***Personnel:***

- ▶ general organisation of work
- ▶ ensuring staff availability and skills (by means of job rotation/mobility and other instruments)
- ▶ workplace well-being, working capacity and motivation
- ▶ managing mental resources

***Service capability:***

- ▶ introducing a quality management system
- ▶ developing operating processes
- ▶ quality of legislation

***Productivity:***

- ▶ updating the organisation
- ▶ developing and using information systems
- ▶ outsourcing operations

## **Description of the current management situation (JS2)**

The framework decision and the performance agreement form the basis for the management agreement, the operational targets laid down in it and the available resources. The management-related aspects of the situation in the organisation should be identified in the manner described above and used as a basis for the agreement. Consideration should also be given to the performance agreement in effect at the time. The previous holder of the managerial position can also be consulted in the assessment of the situation at the time of the conclusion of the agreement. The description of the situation should contain assessments of

- ▶ the cross-sectoral targets for the central government insofar as they apply to the operating unit
- ▶ the effectiveness targets and long-term requirements for structural changes in the administrative branch in question
- ▶ state of the agency at the time of the conclusion of the agreement and its societal impacts, subdivided into:
  - management and leadership
  - personnel competence, motivation and well-being
  - service capability and quality, and
  - productivity

It is not necessary to complete the form JS2 if the assessment of the situation can be carried out by other means.

### **Development targets and priority areas (KT)**

The targets set out by the manager for the development of his/her unit are the most important part of the management agreement. They are also the basis for assessing how well the agreement has been implemented. The development targets are set out for the whole period of the management agreement (between five and seven years). In the completion of the form, particular attention should be given to the information concerning the targets for the first and each following year, while the targets for the following years should be described with sufficient accuracy. This is necessary to ensure adequate strategic planning in the operating unit during the agreement period. The targets are broken down to annual targets so that the implementation process can be followed on a yearly basis. It also allows the person carrying out the assessment to give feedback and draw attention to any deficiencies at an early stage and request the correction of the situation. The annual targets should also be reflected in the next performance agreement.

### **Assessment of manager's performance (JOA)**

The JOA form should always be completed when the payment of a performance bonus is set out in the management agreement. Otherwise, it can be used as a tool for assessing the success of the manager, as necessary. The information on personal assessment contained in the form is confidential. The decision on the payment of the performance bonus is made by the Ministry of Finance on the proposal of the permanent secretary of the ministry in question.