EXECUTIVE SUMMARY

The Finnish public sector is currently facing three major challenges: (1) global competition, (2) quest for increased productivity and (3) structural and service reform of the local self-government. There is, indeed, a quest for new leadership in the Finnish public administration.

Finnish Government quite recently (April 2008) established new guidelines on management in the public administration. The guidelines are needed because the public managers are expected to manage increasing number of contradicting challenges, such as:

- Be responsible of the mission of your organisation and simultaneously be committed with the general objectives of the public administration;
- Implement the decision taken by the level above you and simultaneously be customer-oriented;
- Deliver as a line manager in the bureaucratic structures and simultaneously be active in networking;
- Safeguard the continuity of action and simultaneously act as a change manager;

Finnish public administration has been scored high in international surveys. E.g. Transparency International ranked Finland #1 in the list of the world’s least corrupted countries (2007). Well-functioning public sector is a competitive advantage for any nation. Finland was ranked no. 6 in the World Competitiveness Centre’s Survey 2007. Finland’s strength is in the institutions, health and primary education and innovations.

Local self-governments in Finland have campaigned long and fiercely in order to survive as autonomous and financially sustainable. Global competition (business leaving the country for cheaper labour), urbanisation and ageing population have made the situation worse during the last decade. The Central Government has enforced the municipalities to increase efficiency by structural changes in order to diminish inefficient spending. The Government set a project in 2005 to draft a proposal for local government and service structure reform. The new law stepped into force in March 2007, aiming at the execution of the reform by 2012.

The key to success lies in a skilful utilisation of leadership in strategies, performance and people. Transformational leadership, performance management and situational leadership are the substance of learning for public managers.

Key words: Public sector reform, transformational leadership, performance management, productivity

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The challenges

The Finnish public sector is currently facing three major challenges: (1) global competition, (2) quest for increased productivity and (3) structural and service reform of the local self-government. The nation has to invest in keeping its economy flourishing, maintaining its social welfare and being competitive in global market. Better productivity is needed, because Finland – as a member of the EU’s Economic and Monetary Union - cannot afford bigger public spending. Taxpayers expect better value for their money spent in public service delivery.

Finland – like all OECD countries - has ageing population that requires more social and health services. Urbanisation is a fact in Finland, too. People move from countryside to cities, leaving the peripheral municipalities in great difficulties with their diminishing tax incomes and consequently deteriorating public services. There is, indeed, a quest for new leadership in the Finnish public administration.

Global economy and Finland

The global economy, which has been growing at a rate of 5% a year, is starting to slow down and uncertainties in the world economy are high. The economic cycle in Finland is also slackening and growth in total output will decelerate to less than 3% this year. The instability in the financial market has not yet affected business and household financing but the outlook is much weaker. The forest industry is in trouble, and diminishing international demand is restraining exports. High household indebtedness and mounting uncertainty about the future are further amplifying the economic downturn. In the downturn prevailing next year, economic growth will be in the range of 2½%.

Medium-term economic growth prospects up to 2012 are dampening, expected to slow down to around 2% of GDP. Annual GDP growth between 2008 and 2012 is estimated to average 2.2%.

Sustained rapid economic expansion over the past few years has been reflected in higher tax revenues and property income, thus boosting Finland’s budgetary position. However, with the business cycle having peaked and pressure on spending now mounting, the general government surplus will decrease in the coming years. The general government surplus is estimated to drop to 2.8% of GDP by 2012, with most of the surplus still being in the employment pension funds. The surplus in the social security funds will begin to shrink early next decade, as pension expenditure will grow. Local government finances are in balance this year but will become tighter towards the end of the projection period. Central government finances will deteriorate considerably over the review period. The surplus ratio is forecast to slip to close to 1% by the end of this government term in 2011.
Senior management reforms

The politicians have long debated in favour and against the appointment of political State Secretaries. Finally in 2005 the reform was introduced by the then socialist-centre Government. The political State Secretaries assist the ministers in policy development and strategy issues and especially in the European affairs. So in fact, the political State Secretaries are more or less like Deputy Ministers. They change when the ministers change. The present Government (2007-) has established political State Secretaries in each ministry.

Like it is stated in the newly published OECD report “The Senior Civil Service in National Governments of OECD Countries” (2008), the relationship between politics and administration for senior civil servants is subject to tensions caused by the need to find a proper balance between political responsiveness and neutral competence, which entails commitment to the States’ interests not to a particular Government’s.

In Finland the political State Secretaries do not interfere in the ministry’s general management. That remains the prerogative of the Permanent Secretaries, who are civil servants. However, the launching of political State Secretaries has, so the critics go, increased the levels of hierarchy to be reported to and the volume of that reporting. On the other hand, the political State Secretaries have been quite energetic in driving policy development and strategic issues in their respective field of public administration.

The problem of creation of the political State Secretaries having been solved, the Finnish Government quite recently (April 2008) established new guidelines on management in the public administration. The guidelines are applicable to the civil servants and they correspond very much with the findings of the above-mentioned OECD report. The guidelines are needed because the public managers are expected to manage increasing number of contradicting challenges, such as:

- Be neutral and simultaneously manage action in the political sensitive issues;
- Be responsible of the mission of your organisation and simultaneously be committed with the general objectives of the public administration;
- Implement the decision taken by the level above you and simultaneously be customer-oriented;
- Deliver as a line manager in the bureaucratic structures and simultaneously be active in networking;
- Safeguard the continuity of action and simultaneously act as a change manager;
- Take full responsibility of your organisation and simultaneously accept the limited freedom of action;
- Be manager and simultaneously be an expert.

The Government expresses in the guidelines that it would be necessary for senior executives to be appointed – at least for their first senior post – for a limited time
period (5-7 years). The senior executives should have a wide expertise and experience on different sectors of the public administration.

In order to promote horizontal professionalism among the senior executives the Government decided to launch (2008) a common leadership development programme for all new and potential public managers (the so-called “Future Leaders Programme”). The ministries are invited to adopt methods to assess the potentiality of their staff to the rank of senior executives. Women are encouraged to apply for senior executive posts.

Besides investments in professional development the Government wants to set unified criteria for assessing the performance of senior executives. The individual management plans of senior executives will be adopted government-wide in all ministries. Finally the remunerations of senior executives will be modified in order to better match with that of the senior executives in the private sector enterprises.

Since 1980’s HAUS has been closely engaged in the development of senior managers. However, the emphasis of the training has changed during the years. First the focus was on the deregulation and the increased role of senior executives in adopting managerial approach in their leadership. Then the introduction of performance management and performance-based budgeting radically changed the job profiles of senior managers. After the end of cold war and Finland’s joining the European Union (1995) strategies became ‘the issue’ for senior directors in the public administration. Currently – due to the diminishing margin for manoeuvre of public spending – the public managers are engaged in the implementation of the Government’s productivity programme – how to make the same amount or more deliverables with less inputs. In this context HAUS has succeeded in offering tools for the senior executives to cope with these ever changing challenges of public sector evolution.

Public administration as a competitive advantage

World Economic Forum scrutinizes annually the competitiveness of different nations. One criterion in the scrutiny is ‘the Institutions’. That refers to rule of law, property rights, reliability of the public administration, ethical behaviour of business, anti-corruption, government spending and regulation. In this aspect Finland competes very well among nations.

Finnish public administration has been scored high in international surveys. E.g. Transparency International ranked Finland #1 in the list of the world’s least corrupted countries (2007). Well-functioning public sector is a competitive advantage for any nation. Finland was ranked no. 6 in the World Competitiveness Centre’s Survey 2007. Finland’s strength is in the institutions, health and primary education and innovations. Favoritism in decisions of government officials is non-existent, citizens can rely on the police services, and behaviour of firms is on high ethical level. The legal framework functions well, the government regulation does not burden enterprises, nor does business costs of terrorism raise too high. Consequently the Finnish public administration can offer to the customer models
and best practices, which promote the effectiveness and productivity and principles of good governance.

On the preventive side the Finnish legislation promotes good governance with the following principles that are included in all legal acts: the principle of equality, the principle of objectivity, the principle of proportionality and the principle of focus on issues without divergence. From the law enforcement point of view our public administration is based on zero tolerance. The judiciary, prosecutors, police forces, politicians, business, media and civil society operate on the basis of transparency in identifying and solving the deeds of corruption.

The corruption has been successfully reduced to the minimum in Finland also by guaranteeing good status and adequate pay for civil servants, by having non-political civil servants as heads of ministries and low hierarchical structures in public organisations, and by obliging the politicians and senior civil servants to declare their liabilities and assets.

As regards competitiveness in education - and to the great surprise of the parents of the pupils -, the recent (2000 and 2003) OECD’s PISA surveys (Programme for International Students Assessment) rank high Finnish general education system. The quality is visible also in the Finnish adult learning. Professional in-service training units and institutes were created for civil service in the 1970s. For instance my institute – originally with the name State Training Centre – was created in 1971. Finnish public administration has good methods of training needs analysis, curricula design, training documentation and training delivery. Likewise Finland has proper evaluation system to assess the impact of training in the actual work. Finland invests in modern training methods, such as situational learning and problem-based learning. We focus on the pragmatic skills that the civil servants need.

**Quest for increasing productivity**

The demographic trend in Finland – the ageing society – creates challenges both at the central government and local government level. At central level the Government faces the change of generation in the civil service – those born after the Second World War will retire in the next few years. It is crucial to transfer the institutional memory from the senior staff to the new, young officials. At local level the municipalities have to be prepared to provide its ageing population with more social and health care services. Growth in productivity is seen as a key to solve both these challenges.

Here are some facts on the growing costs of the public health services:

Health expenditure in Finland totalled EUR 13.6 billion in 2006. In real terms, this is 2.3 per cent up on the previous year. Health expenditure per capita was EUR 2586 on average. The expenditure has been increasing in Finland since 1995. In 1995–2006, the greatest increases occurred in expenditure on medicines and dental care. The smallest increases were in institutional care for older people and people with disabilities and long-term inpatient primary health care.
In 2006, health expenditure as a share of gross domestic product (GDP) was 8.2 per cent, which was 0.1 per cent less than one year earlier. Finnish health expenditure as a share of GDP continued to be below the OECD average, which was 9 per cent in 2005.

Health expenditure in Finland is mostly financed from public sources. In 2006, public financing of health expenditure accounted for 76 per cent and private financing for 24 per cent. The proportion financed from public sources has been increasing since 2003. Households accounted for 18.7 per cent of health expenditure in 2006.

There is a saying on the Finnish politics: no matter which party or party coalition is in power, the same strict national economy policy is adopted and implemented. When the new right-wing coalition took the power in Finland last year, they adopted the same national economy policy that the left-centre coalition had implemented. Strict limits for public spending have to be kept in order to be pro-actively operational also in the future, when the challenges of ageing society, climate change and urbanisation have to be met with their full force.

In its Programme, the Finnish Government has committed itself to spending limits defined for on-budget entities for 2004-2007. In a situation where employment trend has finally taken a turn upwards safeguarding economic growth and stability and adhering to the expenditure policy is of vital importance.

With the Government’s new decision (13 March 2008) on spending limits for 2009-2012 the Finnish Government aims to keep the central administration’s ear-marked annual budget around 35-36 billion EUR. Annual changes in spending limits between ministries are prioritised so that if one ministry gets more, the others will get less (‘zero-sum game’). By the same decision the Government has also decided on measures that improve productivity. A special attention will be paid on the personnel costs across the central administration.

The starting point for the productivity programme was that an estimated 35,000 central government employees will retire on pension, change over to another employer or for some other reason leave their jobs in 2005-2011. Some 3,200 new employees will be annually recruited during the planning period of 2009-2012. Under these circumstances, the implementation of productivity programmes for the respective administrative branches can be adapted to the goals of safeguarding the employment relationships of the personnel and at the same time care can be taken that central government offers opportunities for new employees interested in central government duties.

As a good employer, central government assumes overall responsibility for its personnel in terms of both continuity of employment and coping with the work. The productivity programme also provides the opportunity to ensure the competitiveness of central government pay levels. The productivity programme is implemented in cooperation with the personnel and the organization representing them.

In order to increase productivity the Government established five new service centres for economic and personnel administration in central government, all
forming a network that will operate on uniform principles. To ensure that the service centre network operates cost-effectively, the Ministry of Finance is in charge of instituting the required measures by 2011.

The use of service centres will allow considerable improvements in the productivity and efficiency of economic and personnel administration, in the quality of operations and in reducing personnel resources for the production of services.

Service centres are not the only new organisations created by the Government. The year 2007 witnessed the fusion of two ministries – Ministry of Labour and Ministry of Trade and Industry became one – Ministry of Labour and the Economy. This reform, which was executed in a speedy way in eight months, will take a lot of time to be well established inside its structures. HR issues are one of the crucial points for sustainable success of the reform.

The Government has also pushed forward the change in the status of the 20 Finnish universities with 30,000 staff. The new university law is planned to step into force in 2010, separating the universities from the state economy (‘fiscus’) and make them autonomous foundations with financial independence. Moreover, the decision-making system would be renewed, employer rights would be transferred to the universities, and the previously tenured staff positions would become contract-based.

The Government has also continued guidance and coordination of consolidated central government ICT activities. Most of the reform of operating processes is based on increased utilization of ICT in order to improve operations and services.

New operating models often call for new types of working facilities and operating environments. Procurement expenditure has reached the same volume as personnel expenditure in the state budget (around 5 billion EUR). By concentrating large procurement quantities and by renewing procurement processes, significant productivity savings can be achieved. The Finnish Government will propose binding legislation in this respect in the next budget proceedings.

Besides those already mentioned measures the State Treasury was assigned (2008) to provide government-wide centralised services on change management and productivity-related expert services e.g. on the following topics:

- Structural changes and operational reforms: profiting from economies of scale and specializing, shares services
- Increasing market mechanisms in production (increased role of private producers, partnership models etc.)
- Reforming funding, provider – producer structures and management structures
- Improving budgeting systems, management by results systems and accountability
- New incentives to be included in the transfers to municipalities systems to support enhanced productivity and efficiency in welfare services production
- New incentives for the managers and for the civil servants.
Structural and service reform of the local self-government

Local self-governments in Finland have campaigned long and fiercely in order to survive as autonomous and financially sustainable. Global competition (business leaving the country for cheaper labour), urbanisation and ageing population have made the situation worse during the last decade. On one hand it is a matter of economy, on the other hand it is a matter of local political power and its link with nation-wide political influence. The Central Government supports financially the service production in the municipalities; nevertheless at the same time the Government has enforced the municipalities to increase efficiency by structural changes in order to diminish – yes, to eliminate - inefficient spending. This has paved way a couple of years ago to a ‘tsunami’ of municipal reforms.

It is worth mentioning here that local self-government, which in Finland has traditionally been autonomous in collecting taxes and providing public services for its inhabitants – is a value as such. Local self-government is decreed by the Constitution. The quest for efficiency is secondary compared to the value of local self-rule.

The Government set a project in 2005 to draft a proposal for local government and service structure reform. The new law stepped into force in March 2007, aiming at the execution of the reform by 2012.

Due to good national economy the municipalities did better in 2006 than earlier. Based on financial accounts data for 2006, the annual margin in municipalities and joint municipalities totalled EUR 2 billion. This means it improved considerably on the previous year and was large enough to cover both depreciation for capital assets and net investment. However, in spite of the overall improvement in local government finances, the number of municipalities in a difficult financial position is still high. The debt burden in local government continued to grow, and the debt volume was up by EUR 700 million.

The first decade of 2000 has witnessed a radical reduction of number of municipalities; in 2000 Finland had 452 municipalities, in 2008 the number was down to 415. The current estimate is that the number of municipalities will be 348 as of 1 January 2009. Even after that there is every reason to believe that the reduction process will continue with 4-5 municipalities yearly. Nobody can tell, what would be an ideal number of economically sustainable municipalities, maybe 200, maybe even less. The municipalities have merged with the neighbours, having better financial expectations. Municipalities have also agreed to ally with each other to produce services on energy, social and health care and primary education.

Quite often these newly established alliances and coalitions face challenges due to complicated political cooperation and networking, models of financing, decision-making. There may also be lack of synergy between the different parties to cope with the increased competition between regions on new business and services for the inhabitants. Nevertheless, the big urban areas have so far not merged into larger economically sustainable regions. For instance the Helsinki Metropolitan area
with its one million inhabitants is composed of four independent municipalities that struggle the challenges of inter-municipal nature (transport, environment, land use).

Despite the current favourable economic outlook, the financial position in local government risks deteriorating again in the coming years. The forecasts indicate that the potential for economic growth will deteriorate in the next few years owing to the ageing of the population and the resulting fall in labour supply. The number of employees in municipalities is expected to increase at an average rate of 4.6 per cent per year. The number of employees is expected to increase by about 4,000 people per year, mainly due to growing staff needs in social and health care services.

Besides Finland, several other EU Member States have implemented local financing reforms recently, such as. Denmark, Slovenia, Portugal, Austria, Bulgaria, Spain and Romania. Many of the reforms are motivated by efforts to improve the worsening local public budget balance, e.g. in Denmark.

Looking for new leadership

Finally – after having described the challenges in the Finnish public administration and the measures to be taken – it is necessary to describe with few lines the quest for leader leadership. The key to success lies in a skilful utilisation of leadership in strategies, performance and people. Let me explain a bit more what do I mean by this statement.

Firstly modern public administration requires the identification, design and implementation of organisational transformation. Paradoxically we have entered an epoch, which has made change management permanent state of public organisations. In private business this would be called quarter economy, when strategies are changed immediately when need arises.

Therefore senior managers in the public sector are required to become transformational leaders. As a doctrine transformational leadership originates from the UK in 1970’s (with a link to Max Weber’s charismatic leadership theory in the 1940’s). Transformational leaders are supposed to be able to transform their ideas and values to their followers, be inspirational. Leader has to be charismatic, visionary and intellectually stimulating. He/she has to have high moral norms, too, and be able to communicate them to the staff so that they share these values.

Transformational leadership has also been called as ‘intellectual leadership’. This concept was created and validated on the basis of research done (2003) in big Finnish multinational companies (e.g. Nokia, Kone, Ahlstrom and Fortum).

Intellectual leadership is shared and collaborative. Moreover, leadership is seen as a process, not as a position. It therefore goes without saying that the proverbial followers are actively involved in this model and that they are also engaged in the phenomenon of leadership, not ‘followership’. It is also important to state that purpose and vision give the justification for leadership. Leadership is always based on universal principles and values.
People usually learn leadership best by doing. Good self-assessment competencies and awareness about your own learning obstacles are needed for this. Also management and leadership training is useful when its timing is correct and it is tailored to the organization’s situation. It should always start with self-leadership.

Intelligent leadership widens the area of influence from individuals to teams, to organizations and to societies. Intelligent leadership should help individuals to develop themselves comprehensively as human beings. It should support working individuals in becoming self-directed teams. It should support organizations in becoming intelligent, too. And in addition to this, it should support us in building intelligent societies, where we can integrate economy, ethics and ecology. This is the ultimate goal of all leadership training.

Secondly, as Governments put pressure on increased performance, the senior civil servants have to become skilled performance managers. They have to manage the dialogical method of setting objectives and assessing the results or achievements based on the objectives. The managers have to become skillful in setting the salaries on the basis of performance and in assisting the staff in their personal development plans.

The Finnish public administration adopted performance management as its official management system in 1990. Performance-based budgeting became mandatory in 1995. This emphasis of performance in public service delivery seems to be a common trend now in most of the OECD countries.

Thirdly, as public managers have to be more responsible for the performance, they have to in efficient and effective situational leadership. Managers have to be able to motivate staff member, they have to delegate tasks and encourage people to take initiatives and decisions at job. At the same time managers have to be able to intervene immediately, when problems in performance (e.g. due to socio-hygienic relations between staff members) arise. The public manager is supposed to be part of the solution, not part of the problem.

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