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Christopher J. O'Leary
W.E. Upjohn Institute, oleary@upjohn.org

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Christopher J. O'Leary

Performance Management of Active Labor Programs in Eastern Europe

Unemployment in Hungary and Poland has risen dramatically since late 1989 when privatization and economic reform began to accelerate. The overnight disappearance of the Soviet market and elimination of state subsidies and price controls transformed these shortage economies into labor surplus economies. Registered unemployment in Hungary rose from 23,000 in 1990 to 705,000 in 1993 in a labor force of close to 5 million. Since then the Hungarian unemployment rate has fallen somewhat, but remains in double-digits, with total employment having fallen by 25 percent since 1990. Officially measured unemployment in Poland jumped from zero in 1989 to 16.4 percent in 1994. During this period, Polish civilian employment declined by more than 2 million. Figure 1 (not available in this document) summarizes these unemployment trends.

To ease the hardship associated with worker dislocation and to maintain social stability, the governments of Hungary and Poland acted quickly to create unemployment compensation systems, along with a variety of active labor programs. Policy measures adopted in the two countries include nearly the full menu of active labor programs found in nations with developed market economies: placement service, retraining, self-employment assistance, wage subsidy, public service employment, job creation investments, work sharing, and early retirement subsidy. These are available in Figure 2.

Figure 2. Active Labor Programs in Hungary and Poland

Active labor program	Hungary	Poland
Placement service	Yes	Yes
Retraining	Yes	Yes
Self-employment assistance	Yes	Yes
Wage subsidy for hiring	Long term unemployed	Recent graduates
Public service employment[1]	Yes	Yes
Job creation investments	Yes	Yes
Work sharing	Yes	No
Early retirement subsidy	Yes	No

1. Poland also has Intervention Works projects operated by private sector employers.

Since 1990, the Upjohn Institute has worked with the Ministry of Labor in Hungary to develop evaluation and planning procedures for labor market support programs. In 1993, the Institute initiated a similar project in Poland. The projects have been coordinated by the World

Bank and the U.S. Department of Labor.

Given the disappointing historical experience Hungary and Poland had with central planning, both countries have sought ways to manage employment policy in a decentralized way. In each country, the legal framework of program options is established by national legislation. Funding for employment measures is allocated to the provincial governments, which then implement specific program activities to address regional needs. To support decentralized decision making, while at the same time requiring accountability and efficiency from provincial governments, both Poland and Hungary are establishing performance-based management systems for evaluation and planning of their active labor programs.

The management systems include performance indicators specified to measure the success of each active labor program in the different provinces and local areas. The guiding principle in developing performance indicators was to emphasize *outcomes* rather than *processes*. This emphasis was particularly important in government agencies where, until recently, hoarding of resources and organization building had been primary goals.

The performance indicators focus on desired outcomes such as employment in private unsubsidized jobs. They are timely measures that can be readily implemented and should become a natural tool for managers. They are intentionally simple, so as to minimize the data collection burden on provincial governments. The plan is adjust performance targets for the local economic conditions and client mix. Such adjustment will make comparisons across provinces and programs more fair. In addition, the adjustments for client mix should discourage provincial governments from attempting to boost performance through the practice of *creaming* - inflating a program's success rate by limiting services to only the most qualified applicants. By adjustment weights, performance standards will be relaxed for provinces providing services to low skilled, low-educated, long-term unemployed or other specified hard to reemploy groups. Such targeting of services will raise the social dividend of employment policy.

In November, the Upjohn Institute will conduct training in performance management of active labor programs for all 49 provincial labor offices in Poland. In 1993, similar training was completed in Hungary for all 20 country labor centers.

The experience of Hungary illustrates the process of system development. Following months of debate, providing users of the system a strong sense of ownership and control, consensus on the list of performance indicators was reached in October 1992. Deliberations involved representatives from the Ministry, National Labor Center, Labor Research Institute, Budapest University of Economics, three country labor centers, and the Upjohn Institute. To illustrate, performance indicators for retraining programs were specified to be

- Average cost per trainee employed at follow-up
- Proportion of trainees employed at follow-up
- Average cost per training program entrant
- Proportion of entrants who successfully complete training
- Average monthly earnings of trainees employed at follow-up
- Proportion of employed trainees working in occupation of training at follow-up.

The performance indicators system was then pilot tested in three Hungarian counties. Despite some reluctance at senior management levels, nationwide implementation of performance management began in 1994. The impetus to set the system in motion came from a 1993 Auditor General report questioning the effective use and control of the decentralized Employment Fund.

One year after follow-up surveys began, a national conference on the experience with performance indicators was held at the National Labor Center in Budapest. Wide-ranging comments about the system were offered from the 20 counties and from federal representatives. Due to the impact on survey response rates and the minimal dispersion in occupational wage distribution, the reemployment wage indicator of reemployment job quality was eliminated.

While federal partners at the meeting assured counties that the performance indicator results would be regarded as preliminary and used for developing an adjustment methodology for inter-county comparison, the counties themselves cited a variety of immediate uses of the information. The counties reported the information to be particularly valuable in assessing contract service providers. It was also noted that the impending reduction of active labor programs to four - retraining, public service employment, wage subsidies for long term unemployed, and self employment assistance - will likely simplify the system and speed implementation of the computerized system to support performance management.

The Ministry of Labor in Hungary is currently revising the annual planning and budget allocation process for active labor programs. Master plans for the counties and Ministry will be set in place and guidelines for county annual plans based in part on program performance will be prepared. The Ministry is considering an algorithm which weights program performance 10 percent in budget allocation decisions. Guidelines for performance-based contracts to service providers are also under consideration. The Ministry is pursuing a positive approach to performance management by emphasizing high performance, with the likely response to poor performance being management assistance to counties.

In the past, the transfer of knowledge about employment policy has been from the mature market economies to the less-developed countries. Even the performance management systems developed in Hungary and Poland are adapted from methods used in nations with developed market economies. But because programs in Hungary and Poland are operated in a coordinated way, the systems provide a simultaneous view of the effectiveness of all programs, thereby clearly revealing policy trade-offs. These management systems are models for other nations in Central and Eastern Europe, and they may also provide insights for nations with much longer histories of employment policy.

Christopher J. O’Leary is a senior economist at the Upjohn Institute.

Suggested Readings

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