

## 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.

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### *The sustainability of the Nordic model*

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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 and financial 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 reinforcing social cohesion by helping to ease economic and social adjustments. The government needs to better communicate the difficult challenges and choices that are required of the society as a whole, and then make those choices, on behalf of the citizenry, as the steward of Finnish public values, resources and objectives.

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### *Achieving strategic agility*

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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 interacting with the surrounding environment to be permanently aware of the current strategic position, and scanning 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

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

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 area. 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. This will further involve sub-national authorities as reform partners, increasing alignment of horizontal and vertical objectives, and building up local capacity in order to promote local innovation and services that are adapted to local needs.

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*Preparing the public administration  
for continuous change*

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Finland entered the global economic crisis with a relatively strong fiscal situation. It has a robust competitive environment, a qualified workforce, and a deserved reputation for good governance. Yet, like many other OECD countries, Finland realises that preparing 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.