

**A System for Evaluating  
Employment Programs in Hungary**

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## EXECUTIVE SUMMARY

### INTRODUCTION

In August, 1990 the W. E. Upjohn Institute for Employment Research submitted to the Hungarian Ministry of Labor a comprehensive plan entitled *Evaluation Criteria and Planning Guidelines for Employment Fund Programs in the Republic of Hungary*. This plan, based on two months of study in Hungary, proposed a practical system for the coordinated assessment and planning of Employment Fund programs. In March of 1991 a new Employment Law was enacted in Hungary. The new law changed the collection of programs for labor market support in Hungary and the relationship between the local employment centers, the county employment centers, and the Ministry of Labor.

The current project involved a revision of performance indicators for active labor market programs, development of a data system to consistently report on performance indicators in all counties on a regular basis, and implementation of the system. The system is intended to support evaluation, planning and budgeting of programs supported by the Hungarian Employment Fund. Three main principles guided work on the performance indicators system: (1) the system produced should provide useful information about program performance so as to assist effective management of programs (2) the system should be as easy as possible for counties to implement in a consistent way, and (3) the performance indicators and methodologies for monitoring and analysis should be natural extensions of existing procedures and information systems.

### ACTIVE LABOR MARKET SUPPORT PROGRAMS IN HUNGARY

The system of performance indicators developed in this project was designed to provide assessment of activity in the following eight active labor market programs:

1. Retraining
2. Self Employment Assistance
3. Wage Subsidy for Hiring Long Term Unemployed
4. Public Service Employment
5. Job Creation Investments
6. Part-time Employment

7. Early Retirement Subsidy
8. Employment Exchange

## THE CONCEPT OF PERFORMANCE INDICATORS

The approach to monitoring the effectiveness of Employment Fund programs focuses on timely measures which can be readily implemented and may become a natural part of the management system. The process centers on what are called performance indicators.

Performance indicators (PI) allow standardized assessment of performance across programs and counties not provided by other methods of evaluation. Furthermore, the information from the PI system is timely so that results may be used in the annual planning and budget allocation process.

Among the evaluation methods available, which also include experimental, quasi-experimental, and econometric approaches, the monitoring approach using PI was chosen as being particularly practical at the early stage of program development. The monitoring approach to evaluation which uses PI has been endorsed by senior officials in the Hungarian Ministry of Labor, the National Labor Center in Hungary, and the Labor Research Institute of the Hungarian Ministry of Labor.

## DEVELOPMENT OF THE EVALUATION SYSTEM

Since May of 1992, work to revise and implement a system for monitoring the cost effectiveness of Employment Fund programs has been under way. Under the supervision of the Ministry of Labor and the National Labor Office in Hungary, the W.E. Upjohn Institute for Employment Research worked with representatives from Borsod-Abauj-Zemplen, Hajdú-Bihar, and Somogy counties to develop and pilot test a practical system of PI. In October of 1993 nation wide training in how to conduct surveys, record data, and compute performance indicators was carried out. Nation wide implementation of the system is scheduled to begin in January, 1994.

Work on the project was accomplished during a series of visits by Dr. Christopher J. O'Leary of the W.E. Upjohn Institute for Employment Research to Hungary along with several

study tours by Hungarian representatives to the United States, Canada, the United Kingdom, Ireland, the Netherlands, and Denmark. O'Leary spent more than four months in Hungary working on the project. Month long work visits to Hungary took place in May and October 1992 and during the Spring and Fall of 1993. Brief work visits to Budapest were also made in January and March, 1993. During the fellowship study tour to Washington, DC, in addition to seminars on program design and evaluation methods, work sessions on performance indicators were held.

The lengthy process resulted in a significant degree of consensus on the criteria, and a sense of participation and ownership by those who will ultimately use the system for planning and evaluation. On Thursday October 22, 1992 a grand meeting was held in Miskolc, Hungary. The meeting was attended by representatives of all groups who contributed to the development of the PI and will be working with the PI system. Representatives were from: Ministry of Labor, National Labor Center, Labor Research Institute of the Ministry of Labor, Somogy County Labor Center, Hajdú-Bihar County Labor Center, Borsod County Labor Center, and the W.E. Upjohn Institute for Employment Research. Final agreement was reached on the list of PI to be used, and the means for computing the PI.

## DESIGNING THE DATABASE FOR PERFORMANCE INDICATORS

Once the list of performance indicators was finalized, specification of the data elements needed in the supporting data base began. The objective was to make the information system adequate to perform the immediate function of computing performance indicators, yet flexible enough to serve broader functions of management and evaluation. It was also recognized that the best pathway to a rich and reliable data base should exploit existing information and impose the minimum added burden on labor center staff.

Proper assessment of the effectiveness of labor market programs requires person level data on a variety of characteristics of individual program participants. Person level data on characteristics allows examination of program results by group. It also allows the development of a methodology for adjusting performance indicators targets, and may allow quasi-experimental net impact evaluations of programs. Therefore, the data base was designed to include information on: demographic characteristics, prior labor market experience, program participation information,

and follow-up survey information. The data base also includes data on enterprises which run projects and provide training, and characteristics of training courses and special projects like investments or public works.

Computer experts in Borsod-Abaúj-Zemplén county, primarily Zoltan Bende and Norbert Molnar, developed computer programs to accept entry of follow-up and cost data for computing performance indicators and storage in a data base separate from the one for administration. This system is intended to be a temporary solution and a model for future software development.

#### NATION-WIDE TRAINING IN THE EVALUATION SYSTEM

In October, 1993 nation-wide training in use of the performance indicators system was conducted. Two large seminars were conducted to train representatives from all 20 county labor offices in the theory, survey, and data processing techniques needed to implement the evaluation part of the system. Seminars were conducted at Balatonföldvár and Malyi with over 50 persons involved in each seminar. The main aim of the training was to provide hands on practical experience in computing performance indicators.

Each of the training seminars was two days long. Training began with introductory remarks by András Vladiszavlyev, director of the National Labor Center, who encouraged training participants to be attentive since the material to be covered would be valuable in efficiently managing labor market programs.

#### THE SYSTEM OF PERFORMANCE INDICATORS

The principal goal of all labor market programs is to achieve reemployment of unemployed persons. Achievement of this goal is measured by the rate of reemployment and cost of reemployment experienced by program participants. The programs also attempt to provide transitional services between unemployment and reemployment; the cost of achieving this goal is measured by support costs. There is a great variety of other goals necessitating a diversity of programs and other types of performance measures. Table A lists the PI proposed for eight active labor market programs.

## AN ADJUSTMENT METHODOLOGY FOR PERFORMANCE INDICATORS

For the following three reasons, an adjustment methodology is proposed to be part of the system of performance indicators: (1) to assess the effectiveness of programs in each county considering the specific reemployment difficulties faced in the county, (2) to reduce “creaming” when counties work to meet performance targets,<sup>1</sup> and (3) to provide incentives for targeting services to certain special groups.

Values of the performance indicators computed with county data for a calendar year may be used to establish national standards called performance targets for the following year. County performance on each program may then be compared to the performance targets annually. The performance targets can be updated annually to reflect national trends.

Using data on client characteristics and some regional economic information, it will be possible to design an adjustment methodology to adapt national standards to local conditions and provide incentives for directing services to special target groups. The Ministry of Labor may choose to designate certain groups for special attention in reemployment services (perhaps persons with eight or less years of schooling, persons not covered by unemployment compensation, the physically handicapped, and long term unemployed might be targeted for services). If this is done, methods for adjusting the performance targets by service to these target groups could be incorporated into the adjustment methodology to provide an incentive for providing service to these groups.

## USING PERFORMANCE INDICATORS

While the planning and evaluation methods developed for labor market programs in Hungary will also have many unanticipated uses for management, it is expected that the five principal uses will be:

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<sup>1</sup> Creaming refers to the practice of program administrators selecting the most qualified candidates for program participation so as to increase the likelihood of program success. The analogy is to milk where the best part, the cream, floats to the top and can be skimmed off. Creaming is an issue in operating labor market programs because if only the most qualified people get assistance then the benefit to society of the programs is not as great as it might be otherwise. Highly qualified program entrants have a good chance of becoming reemployed even without the services offered in the program, while for less qualified applicants the program services might be the only realistic path to employment.

- (1) To preserve decentralized decision making about allocation of funds to various programs and service providers.
- (2) To promote superior performance by counties, local offices, and service providers through positive incentives.
- (3) To help identify and correct poor performance through technical assistance and/or sanctions.
- (4) To contribute information on performance to the funding allocation process used by the tri-partite National Labor Market Committee to allocate funds to the counties.
- (5) To ensure compliance with legal requirements of programs.

The emphasis among these uses is on positive incentives rather than punitive action.

#### METHODS FOR SUMMARIZING PERFORMANCE INDICATORS

For comparison of average performance across counties a summary indicator may be formed from separate measurements which are all of a similar type. For example the PI category “Cost of Reemployment” might combine information on reemployment cost from six of the separate programs. While the measure for each program is slightly different all of these PI measure the average cost of final program success: reemployment. Adding up the percentage deviations from adjusted standards and dividing by the number of PI involved yields a simple average measure of performance for a county across programs for that PI category.

A second summary approach which could directly aid counties in making their budget allocation decisions would be to compute the weighted average cost of achieving a final outcome across alternative programs, where the weights are the fraction of the total client population served by the various programs. The result of this computation is the weighted mean cost across programs. This summary measure can be used to directly guide the counties in the optimal allocation of their county Employment Fund budget across programs, because reallocating participation to lower cost programs will lower the weighted mean cost and increase overall cost effectiveness of programs.

A third approach involves transforming the quantitative information in the PI system into qualitative information for management purposes and is summarized graphically in Figure A. This diagram assumes that the values of PI vary across counties so that there is some distribution of PI values. Within the distribution for each PI it will be possible to set up ranges of critical values and allow the computerized management information system produce a report suggesting management action based on a county labor center value of a PI. An example depicted in Figure A suggests that PI values close to the national mean value would indicate performance classified as “normal” with the suggested management action to provide the average budget increase. PI values in the “success” range would yield X percent budget increase, while those in the “excellent” range would yield a Y percent budget increase. PI values in the “Conflict” range would result in an X percent budget decrease, while a PI value in the “crisis” range would result in management assistance being sent from the NLC.

Another summary measure of performance is a simple “score” measure. The score for a given year might be the number of performance indicator measures which exceed target values on all or a given subset of performance indicators. An appeal of a score measure is that it is easy to apply. A caution about the score method and any other summary measure is to base the summary on a sufficiently broad collection of measures. The temptation to base decisions on one or a few performance indicators should be resisted, as it may result in unintended incentives.

## ALLOCATION OF FUNDS

The decentralized part of the Employment Fund is allocated by a formula approved by the National Labor Market Committee (NLMC). In 1991 the formula for allocating the decentralized Employment Fund had six factors. In 1992 the budget allocation formula was reduced to have only four factors—one prime factor and three supporting factors. The prime factor was county share of the nation’s economically active population, i.e. in the labor force. The supporting factors (with weights in parentheses) were: the county share of total registered unemployed in Hungary (3/5), the county share of long term unemployed in Hungary—long term unemployed means registered 6 months or more as unemployed (1/5), and the county share of school leavers in Hungary (1/5). These three secondary factors were combined and applied to the primary

factor. For 1993 the only change in the algorithm for allocation of the decentralized employment fund which was made from 1992 was to change the factor “county share of the nation’s school leavers” to the factor “county share of the nation’s unemployed school leavers.”

If the NLMC were to incorporate one or two summary measures of PI into the algorithm for allocation of the decentralized Employment Fund, it is likely to have a significant influence on the efficient operation of labor market programs. All together the performance indicators based factors need be assigned a weight no greater than (1/10) in the overall scheme. Such an action will focus attention on program performance as measured by the PI system. With even just 10 percent of the decentralized Employment Fund allocation depending on measures of program performance a great positive incentive for efficiency will be created. To give stability to the planning process for counties, the NLMC might consider a budget allocation process for the decentralized Employment Fund whereby the funding for each county begins at a level not less than about 85 percent of the previous year’s allocation, with the selected algorithm used to distribute only the remainder of the decentralized Employment Fund.

#### FUTURE WORK ON THE SYSTEM FOR EVALUATION AND PLANNING

It is recommended that the performance indicators system be integrated into a regular evaluation and planning cycle. The system may operate according to “master plans” established by the county labor administrations and the Ministry of Labor and include annual plans.

A master plan serves as the long-term guide on basic matters of operations, management, and evaluation of labor market programs. The plan would include details about how performance indicators information would be gathered and used. Once there is mutual agreement about master plans between counties and the Ministry of Labor, they would be in effect indefinitely and updated only as important details change.

Annual plans would state intentions for operation of specific Employment Fund programs in the coming year. Annual plans give details concerning program management and monitoring. They also present reports on program activity and performance indicators. The annual plan establishes an activity forecast which is a prediction concerning the volume of clients to be served. The annual plans also set performance targets, and give a forecast of direct costs for each

program. The annual plan presents a unified financial plan which considers the direct costs of all active labor market programs as well as related administrative costs. This financial plan also includes a unified budget estimate and a funding request for the coming year. After county and Ministry master plans are in place. The evaluation and planning process is done each year using only annual plans.

Table A. Performance Indicators for Active Labor Market Programs

1. Retraining

Retraining of Unemployed

Average cost per course completer employed at follow-up  
Proportion of course completers who are employed at follow-up  
Average cost per training program entrant  
Proportion of entrants who successfully complete training courses  
Average monthly earnings of course completers employed at follow-up  
Proportion of employed course completers working in occupation of training at follow-up

Retraining of Employed

Average cost per course completer employed at follow-up  
Average cost per course completer still employed at firm of training at follow-up  
Proportion of course completers who are employed at follow-up  
Proportion of course completers still employed at firm of training at follow-up  
Average cost per training program entrant  
Proportion of entrants who complete training courses  
Average monthly earnings of course completers employed at follow-up  
Proportion of course completers working in occupation of training at follow-up

2. Self Employment

Average sum of assistance per person still self-employed at follow-up  
Proportion of persons still self employed at follow-up  
Average subsidy per subsidized self-employed  
Average added employment resulting from self employment assistance at follow-up

3. Wage Subsidy for Hiring Long Term Unemployed

Subsidy per worker in regular employment at follow-up  
Proportion of subsidized workers who are in regular employment at follow-up  
Average monthly cost of wage subsidy per subsidized employee  
Average duration of subsidy per subsidized employee

Table A--Continued

4. Public Service Employment

Average PSE cost per worker in regular work at program exit  
Proportion of PSE workers in regular work at program exit  
Average monthly cost per PSE worker  
Average monthly earnings of PSE workers in regular work at program exit  
Average duration of PSE employment for program leavers  
Average duration of PSE employment for program leavers who gain regular employment

5. Job Creation Investments

Average cost of subsidies per new job created  
Proportion of placements still employed at follow-up  
Among jobs promised the proportion actually created  
Among jobs created the proportion filled by persons from target groups

6. Part-time Employment

Average cost per job saved  
Proportion of jobs at risk which are saved  
Average cost per job at risk  
Average number of months employees are subsidized

7. Early Retirement Subsidy

Average cost per person entering early retirement  
Average monthly early retirement subsidy per person  
Employment fund share of early retirement commitments made in the calendar year  
Average months until regular retirement

8. Employment Exchange

Average number of referrals per job placement  
Average number of days until reemployment  
Average cost per employment exchange visit  
Average cost per employment exchange registrant