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"Coordination in a fragmented welfare market"

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Introduction

Since the early 2000s, a reorientation towards activation has taken place in the labour market policies of most European countries. This paradigm shift has changed the objectives of labour market policy from income protection to labour market integration. In addition, the governance of unemployment policy has become subject to reform as well. While traditional welfare governance is structured along social risks – unemployment, invalidity, old age security, etc. – social problems such as unemployment are today considered as ‘wicked issues’ which require the involvement of different actors and the close cooperation of different institutions of social policy. As a result, European welfare states have begun to improve coordination in their social security systems by merging agencies or encouraging collaboration. In Germany, the most striking example for such a coordination initiative is the introduction of the one-stop shop agency ‘ARGE’ in which social assistance offices and the National Employment Service cooperate to offer improved integrated services for long-term unemployed persons.

This trend to increasing cooperation, however, is challenged by a second major reform trend, namely the trend to privatisation and contracting-out. Privatisation and contracting-out, which shape the governance of unemployment policy in a decisive way in Germany, are based on the idea that the market can deliver more efficient and more flexible services than large public agencies. Privatisation and contracting-out, however, also lead to an increased degree of fragmentation of welfare governance – and thus are challenging efforts to improve coordination. The two major reform trends in German unemployment governance – overcoming traditional institutional segmentation to better deal with wicked issues and improving the efficiency of unemployment policy through market based governance – might have reverse effects.

While the creation of the one-stop agency ‘ARGE’ and its post-merger problems gain much attention in recent research on the German unemployment system, the question of coordination in the parallel established welfare market for placement and training services is mostly neglected. This paper will address this research gap by enquiring if and to what extent coordination demands are handled in the field of unemployment policy. The paper maps the rearranged organisational landscape of job placement and training services in Germany and critically assesses the coordination practices. Next to policy documents, qualitative semi-structured expert interviews with leading bureaucrats from the National Employment Services and the responsible national ministry, with managers from private providers and with representatives from interest groups are used as empirical material. The results of the research clearly show that the state and the public administration are not on retreat in German unemployment policy. Rather, a multiplication – or even an explosion – of the number of regulative authorities could be observed in the governance of placement and training services. The interviews, however, raise severe doubts if the new governance setting could be assessed as an efficient and effective way of coordination.

1. The evolution of a fragmented welfare market in German labour market administration

Public employment services have three main functions, namely the administration of unemployment benefits, job broking and placement services and the administration of active labour market programmes (job search assistance; training and education programmes; direct job creation programmes) (Thuy et al., 2001). Like most Western countries, Germany has a long tradition of employment service provision by public bodies, especially when it comes to the administration of unemployment benefits and placement services - however, with varying responsibilities between the central level, the federal states and the local level. Only with regard to the governance of training and education programmes, the state has shared its responsibilities from the very beginning of active labour market policy with non-profit organisations belonging in most cases to the social partners.

In the early 2000s, the labour market administration has been subject to comprehensive reforms: in order to improve labour market integration for long-term unemployed, the (majority of the) former local agencies responsible for social assistance have been merged with the local agencies of the public employment service.¹ This merger of two welfare systems, becoming effective through the so called Hartz-reforms², is considered to be the most radical reform of the German labour market administration. It is, however, not the first reform concerned with altering the traditional bureaucratic structure of the public employment service in a decisive way. Already in 1994, the provision of placement services has been deregulated allowing private actors to participate in this market which has been monopolised by the public employment service until then.

The reform of the early 1990s, although having a more incremental character, nonetheless has had a transformative impact (Streeck and Thelen, 2005): the once monolithic structure of the public placement services has become more and more fragmented with numerous private actors competing for a contract with the public employment service. This trend has been intensified with the implementation of the Hartz-legislation. Next to establishing a system of integrated employment activation policies, the Hartz-reforms were also targeted at increasing efficiency and improving quality of the services provided. For this purpose, the reform package counted on the effects of market-based governance reflected in the introduction of a competitive tendering and a voucher system.

Thus, the new emphasis on improved coordination across the different schemes of social policy is accompanied by reforms that have changed the division of competencies and responsibilities in this field of public service delivery and thus add to the fragmentation of the system leading to new coordination challenges.

¹ The introduction of the unemployment benefit I and unemployment benefit II in January 2005 has created a new division of competences between the federal and the municipal level. The Federal Employment Agency deals with recipients of the contribution-based unemployment benefit I in the local employment agencies. The tax funded unemployment benefit II for all unemployed that are not eligible for unemployment benefit I is usually administered by consortia, called joint facilities, where the Federal Employment Agency is working with the municipalities. The employment associations are established through a contract between the local authority and the local Employment Agency and the responsibilities for tasks and funding are clearly separated. Furthermore, 110 municipalities have been licensed to administer the new unemployment benefit II out on their own, the so called opt-out municipalities.

² For a comprehensive description of the different elements of the Hartz reforms see (Kemmerling and Bruttel, 2006).

2. The analytical framework

2.1 Fragmentation and coordination – two sides of one coin

In fact, it is an essential idea of organisation theory that enhanced specialisation needs to be counterbalanced by coordinative measures (Thompson, 1967). A too high degree of specialisation is dysfunctional as it results in a loss of accountability and responsibility. Increased fragmentation and specialisation prompts the need for coordinative measures which help to reintegrate autonomous agencies and which make public service delivery coherent. Most coordinative adjustments in the public sector, such as the recent ‘whole-of government’ or ‘joined-up government approaches’, are to a certain extent based on an ‘action-reaction pattern’, meaning that the increased need of coordination is caused by decisions made in earlier times (Bouckaert et al., 2010: 6-12).

2.2 Three ideal types of coordination

The recent literature acts upon the assumption that there is a broad range of strategies creating better coordination between organisations. Mergers, shared leadership, or less institutionalised measures such as the emphasis of a common organisational culture are only some examples (Øverbye et al., 2010: 395). In this paper, we build on the work of Bouckaert et al. (2010), and Lindblom (1965). Thus, taking into account the activities of other organisations is regarded as a precondition of coordination and thus mutual adjustments in order to produce positive outcome or avoid negative consequences are defined as efforts to improve coordination.

Taking this definition for a start, a classification of different types of coordination initiatives is possible. With reference to the theories of public governance (Thompson, 1991; Benz et al., 2007), one can distinguish three basic modes of social coordination, namely hierarchies, markets and networks.

Hierarchies

Hierarchies are the traditional mode of social coordination within the public sector. Hierarchies are characterised by long-term relationships in which the individual employee operates under a regime of administrative rules, procedures and work roles defined by a superior. Complex tasks are divided into a number of sub-tasks whereas work activities are often highly interdependent and coordination is mainly achieved through clear lines of superordination and subordination and the use of authority.

Hierarchical organisation is especially suited for the repeated production of large numbers of goods and services (Powell, 1990) or whenever it is difficult to specify the required performance in advance and when costs, prices or quantities are uncertain (Stinchcombe and Heimer, 1985). However, hierarchies become dysfunctional and can result in organisational conflicts or even resistance when the acceptance of authority is refused and the necessity and the correctness of a certain programme are doubted. Furthermore, hierarchies are deemed to be less flexible in their capacity to adapt to changing circumstances.

Hierarchy has been for a long time the dominant means to cope with the problem of coordination in the public sector. With the emergence of the NPM-movement, however, the traditional modes of hierarchical steering have been challenged by questioning their efficiency. Hierarchical structures have been replaced on the one hand by semi-autonomous agencies with consid-

erable more discretion than traditional administrative units. On the other hand, ideas of horizontal coordination have gained in importance and “mechanisms and practices where public sector organisations directly account for their conduct [...] to citizens, clients or more generally to societal stakeholders” (Schillemans and Meijer, 2009: 255) have been implemented widely. The locus of this horizontal mode of coordination can be both inside and outside a public organisation, e.g. when representatives of the wider public have a seat in the supervisory board, or when partnerships between public and private organisations are established (Bouckaert et al., 2010: 23).

(Quasi-)Markets

An alternative coordination strategy is the establishment of (quasi-)markets for the proliferation of public services. In contrast to coordination through hierarchy, the links between individual actors or organisations are quite loose (or even non-existent) in a market environment. Social exchange is mainly coordinated through the price mechanism as the regulative instrument to adjust demand and supply.

The perfect market remains an ideal type as it requires preconditions which are never given in an empirical situation. To reach optimal coordination, both easy access to and easy exit from the market for each market participant are necessary. Moreover, full information with regard to the price, the quality of the product or service and possible providers is needed. Due to their imperfectness, markets for products or services with a public character are often heavily regulated and thus turned into ‘quasi-markets’. Such governmental intervention can take on several forms (Le Grand, 1991: 1260): Quasi-markets are for instance quasi because consumer purchasing power is not expressed in money terms. The citizens as the final consumers of public services rather receive a voucher which is issued from the public agency and which enables them to choose among the different suppliers and to pay with the voucher while the ‘real’ funding of the provision remains with the government (Blöndal, 2005). Until the 2000s, vouchers were only seldomly used as the financing mechanism for public services and their use was mainly focused on housing, education, child care and care for the elderly (Blöndal, 2005; Colin, 2005) with only limited diffusion in employment services (Hipp and Warner, 2008). In other cases of quasi-markets, the consumers are represented in the market by (public) agents instead of operating by themselves (contracting out). One also speaks about quasi-markets when access to the market is strictly controlled through a system of certification and accreditation.

Networks

Whereas prices and contracts constitute the principal means of coordination in market relationships, and acceptance of authority ensures coordination in hierarchical constellations, social relations serve a similar function in networks (Powell, 1990). The emphasis is on social relationships based on trust rather than on hierarchical super- and subordination or on impersonal economic exchange (Le Grand, 2003). In contrast to market relations, where actors are independent, and contrary to hierarchal coordination, where vertical lines of coordination are dominant, mutual adjustment is an important feature of networks and is organised mainly through horizontal lines. Individuals/organisations renounce full autonomy and join the network on a voluntary basis, motivated by the insight of mutual dependence. In networks, the content of social exchange as well as the instruments and mechanisms of controlling exchange are not externally imposed but defined by the members of the network themselves. Networks

as a mode of coordination are especially suitable for the production and exchange of goods and services whose value cannot easily be measured (Powell, 1990).

In the context of welfare provision, professional norms and values are an important aspect of network coordination. The observation of these rules and norms is often controlled by professional bodies, which – although having a semi-public status – act according to the idea of self-governance. Next to these institutionalised coordinative instruments, informal mechanisms of social coordination like naming and shaming are of vital importance in network constellations. It is the fear of a loss of reputation and the ‘shadow of the future’ which ensures appropriate behaviour: being aware of both their mutual interdependence and the importance of social capital, network members have a high intrinsic motivation to behave according to the rules.

The following table summarises the three ideal types of coordination:

Table 1: Three ideal types of coordination

	Hierarchy	Market	Network
Basic principle	Subordination/ Obedience	Competition	Negotiation
Source of steering, coordination and control	Authority/Rules and regulations	Price	Reputation/Trust
Duration	Long term	Short term	Longer term
Consequences of inappropriate behaviour	Political criticism or recognition/Resignation or dismissal/Revision of the administrative act	Exit	Loss of reputation/ Exclusion from the network

Source: own compilation

These three basic modes of social coordination have to be understood as ideal types. This implies that they are not likely to occur in reality. The ideal types are rather analytical tools allowing to trace changing ideas and to map shifting modes of social coordination in public administration. Empirical research has shown that the instruction-based coordination in hierarchies is often amended through market-based elements like transfer pricing and performance-based compensation schemes. Bradach and Eccles (1989) as well as Stinchcombe and Heimer (1985) remind us that there are often strong elements of hierarchy and control in written contracts (see also Powell 1990). This means that in the empirical world the different types of coordination are often combined with each other.

3. Coordination of placement services and active labour market policy before the Hartz-reforms: Hierarchies and networks

In terms of coordination, the status quo ante the Hartz-reforms is best described as a mixture of a hierarchical and a network regime. The notion of network coordination applied especially to the governance of the active labour market programmes. Provided by organisations belonging in most cases either to the trade unions or the employer associations, the institutional logic of the governance of active labour market services differed distinctively from classical bureaucratic public service delivery. The three main actors in this network – trade unions, employer associations, and local employment offices – operated at eye level. Labour market governance was a textbook example of the commitment to consensus oriented negotiations between the labour market parties, which had characterised industrial relations in Germany since the end of World War II. Thus, the day-to-day work of the Federal Employment Agency prior to the reforms had been dominated by what is called ‘welfare corporatism’ signifying the intensive involvement of the social partners in the steering and implementation of labour market policies.

Agreements on service delivery between local employment agencies and private providers were fixed in formal contracts. However, lacking effective formal sanction mechanisms, the contracts constituted no real hierarchical relationship between the purchaser, the local public employment office and the private service providers. In sharp contrast to the today competitive tendering scheme, the main criteria for the selection of providers by the local public employment offices were not the price and the quality of an actual offer but the ‘quality’ of prior collaboration experiences. Mutual understanding of what is really needed for local labour market policy and smoothly going negotiations about the details of service contracts were considered as important. Appropriate behaviour of the three network partners was ensured by informal norms stemming from long-term relations and from the feeling of mutual obligations.

The provision of the placement services by the Federal Employment Agency, to the contrary, has been a clear case of hierarchical bureaucratic governance. The codes of conduct and sanctions in case of misbehaviour were routed in the idea of bureaucracy, thus obedience, professionalism, and the calculability of decision making played a major role. Formally, the frontline staff dealing with jobseekers was first and foremost accountable to their superior (and not, for instance, to the clients in front of them). Over the decades however, both the strong focus on compliance with procedural norms and the difficulties to control the actions of street-level bureaucrats gave rise to the typical weaknesses of hierarchical coordination. The result was severe short of public acceptance due to lacking responsiveness, efficiency and effectiveness. The traditional Public Employment Agency was seen as "a large, sleepy and inefficient public bureaucracy restricted by law and regulations and a lack of performance measurements and competitive incentives" (Kemmerling and Bruttel, 2006: 94). The problems became especially eminent in 2002 through the so-called placement scandal (Vermittlungsskandal) when the Federal Court of Auditors discovered that the placement statistics of the Federal Employment Agency had been souped up.

The formal lines of control followed the lines of delegation from the Ministry of Labour down to the local employment offices in reverse direction. As a result of its historical development and due to the specific role trade unions and employers’ associations play in this policy field,

the governance of labour market administration differs from other parts of public administration and is an example for so-called 'self-administration'. This mode of governance implies that the supervision of the labour ministry is limited to the question of the legality of the administrative activities. The functional adequacy of its actions, however, is (as a general rule) not judged. As a matter of fact, the labour market administration enjoys a considerable room of manoeuvre when compared to other administrative units.

The lower degree of ministerial coordination was thought to be compensated by additional internal boards controlling the managers of the Federal Employment Agency. There were tripartite boards of governors at national, regional and local level, and a tripartite management board at the national level. The social partners had not only wide-ranging competencies in the supervision but, through the management board, also competencies for operational, budget as well as staffing policies. These boards are interesting as they constitute a nexus between the hierarchical and the network regime of coordination. In fact, the lower degree of ministerial accountability which should be compensated by participatory rights of the social partners brings the very idea of German corporatist welfare governance to light.

Of course, the Federal Employment Agency was also under the old system formally coordinated by political superiors who were subject to electoral sanctions. However, the length of the chain of delegation from the Bundestag to the local employment agencies with a magnitude of administrative discretion hampered this mode of democratically legitimised coordination. As a matter of fact, self-administration resulted not only in a lower degree of administrative coordination but also in a comparatively low degree of political coordination. Indeed, certain reluctance of the government as well as of the parliament concerning labour market policy could be observed until the late 1990s. Labour market policy has been dominated by a relative autonomous actor constellation consisting of the social partners, the labour market ministry and the social politicians of the Bundestag Standing Committee for Labour and Social Affairs of the CDU/CSU and the SPD. However, this alignment between the social partners, the ministry and members of parliament diminished political control as the legislators and the federal bureaucracy were themselves part of the network that they were supposed to control.

Sure enough, public service provision in network settings can have a number of advantages, e.g. low transaction costs due to well-rehearsed routines, high flexibility and the provision of innovative solutions. In the case of the corporatist labour market network, its contribution to solving social conflict provided an additional advantage: the every-day-collaboration in the governance of active labour market programmes helped to make severe conflicts among the labour market parties less likely. Nonetheless, this mode of governing the labour market was publicly disapproved. Voices critical of corporatist network governance could especially be heard when labour market problems became more severe from the mid of the 1990s onwards. Opponents of corporatist service delivery claimed a lack of both democratic anchorage and customer accountability. The corporatist network was especially open to the problem of partiality (Papadopoulos, 2010). In order to be in line with the requirements of representative democracy, networks should exhibit a pluralist and representative membership structure, or should at least not exclude weak interests. The corporatist labour market network, however, was exclusive in two ways. First, it was more or less a closed shop which hardly allowed new providers to enter the market. In the decades after the implementation of the AFG 1969 (Arbeitsförderungsgesetz – law on employment promotion), which marks the beginning of active

labour market policy in Germany (Oschmiansky and Ebach, 2009), both trade unions and employers' associations expanded their service provision machinery by establishing numerous new provider organisations. Being involved in the governance of active labour market programmes not only on the side of the providers, but, due to the idea of self-administration, also on the regulation side, they were able to treat the provision of labour market services as a 'club good', that is to say they preferred their own institutions in the awarding of new contracts.

The problem of partiality or exclusiveness occurred, second, with regard to the interests of the consumers of the services. As the network members did not have to face severe sanction mechanisms, and as clients were more or less assigned automatically to their programmes, they did not have to bother about customer satisfaction. It was this "giant patronage machine of the Bundesanstalt für Arbeit" (Streeck, 2003) that was mainly abolished through the Hartz reforms.

4. Coordination of placement services and active labour market policy after the Hartz-reforms: Weakened networks and a new emphasis on market coordination

The Hartz-reforms not only repealed the inclusion of the social partners in the formulation of labour market policies³ but also changed the system of service provision and thus the coordinative instruments for the interplay between the Federal Employment Agency and the private providers. Referring to the above developed analytical framework, the new coordination regime displays features of market and (modernised) hierarchical coordination. The most obvious change can be seen in the introduction of vouchers and competitive tendering, both coordinative instruments typical for quasi-markets.

In the following, the voucher system and the competitive tendering system are described in more detail. In the case of placement services, the introduction of market mechanisms has been something completely new and created a quasi-market which is mainly dominated by temporary work agencies and small private placement agencies. What concerns the market for training and education programmes; here as well, the instruments how customers are assigned to the different measures have been altered. To weaken the corporatist network that has dominated this branch, a competitive tendering system and training vouchers for long term training and education measures have been introduced (Bruttel, 2005). In contrast to placement services, the introduction of competitive tendering and vouchers has been combined from the very beginning with a comprehensive system of certification and quality assurance.

4.1 Fragmenting the governance of placement services

As described above, the governance of placement services has already been changed in the early 1990s by allowing private companies to enter this market. The implementation of the Hartz-reforms pressed this shift to coordination through market instruments further ahead by introducing a voucher system for placement services. The main rationale for the introduction of this placement voucher was to foster competition and thus efficiency among providers as well as to increase consumer choice (Kaps and Schütz, 2011).

The allocation of a placement voucher is an obligatory benefit for jobseekers receiving unemployment benefit I and a discretionary benefit for jobseekers receiving unemployment benefit II. With the placement voucher, a jobseeker can mandate a private placement agency to find him a job. Private providers are only paid if they successfully place a jobseeker, so the payment is completely performance based (no cure, no pay) whereas the first payment is made six weeks after the placement and the second after six month if the employment contract is still persisting.

Since 2002, private placement agencies no longer require a specific license from the Federal Employment Agency which has been the case before; a business registration is sufficient. This means that practically anybody can practice as placement agency and cash in a voucher (Kaps, 2009). There are practically no control mechanisms or quality and performance assurance practices in place. The absence of such procedures is justified by the fact that the no cure – no

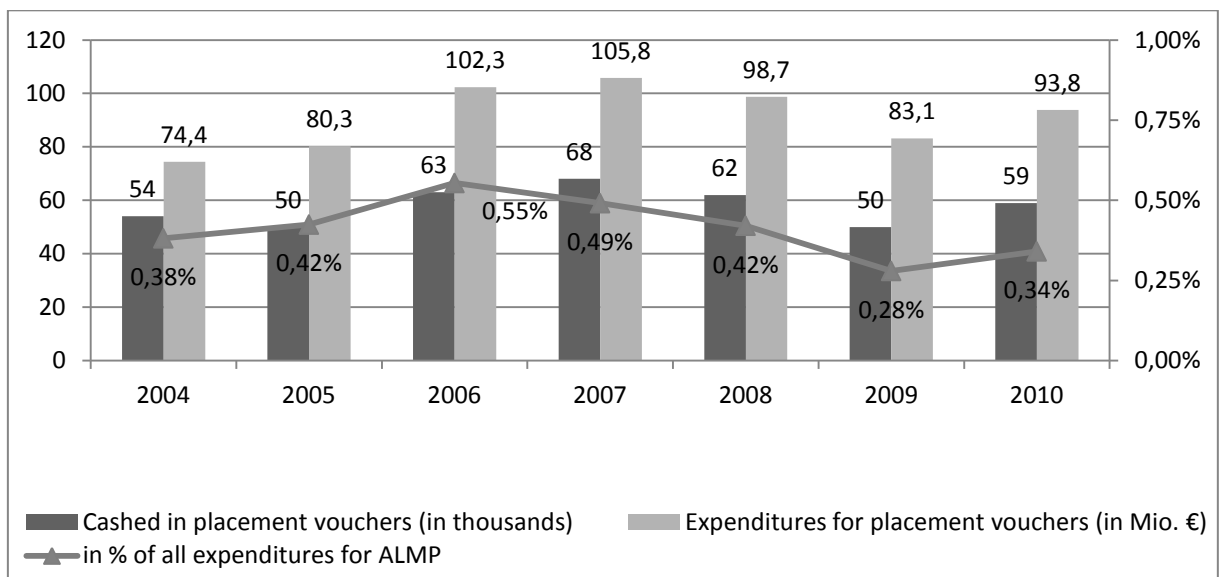
³ Only two of the 15 members of the *Hartz-Kommission* were representatives of trade unions, and only one represented established organisations of business (Streeck, 2003).

pay system provides the necessary incentives to assure the quality of private placement services (personnel interview).

Due to the deregulation, statistical data for the market of private placement services are inexistent. What can be observed from the statistics is that less than 10% of all placement vouchers are cashed in signifying that a successful placement has taken place (Bernhard and Kruppe, 2010). The reasons for the relatively low rate of redemption are seen in a lack of initiative and trust by the jobseekers and in information asymmetries concerning the market structure and the supply of private placement services. Furthermore, creaming effects might be another reason (Bernhard and Kruppe, 2010). The misuse of the placement voucher has been criticised especially from the General Court of Auditors (Bundesrechnungshof, 2006, 2011). As a result, the regulation of the placement voucher has been adjusted several times (Kaps, 2009).

What also becomes evident from the statistical data is that in less than 50% (49% for 2010 and 47% for 2011) of the cases, the second disbursement is paid out. This implies that every second person placed by the voucher system is again unemployed within 6 months. Moreover, by relating the expenditures for the placement voucher to all expenditures for active labour market policy, it becomes apparent that the placement voucher is of minor importance compared to other instruments. Nonetheless the voucher still persists as an instrument of active labour market policy.

Graph 1: Placement vouchers over time



Source: Own calculations, data from Bundesagentur für Arbeit

Recent reforms of active labour market measures have seen a hesitant shift to more coordination. The registration procedures for private placement agencies have been changed: the once rather low barriers for market entrance (only a business registration) have been tightened. Since April 2012, all private placement agencies need a certification if they want to cash in a placement voucher. The certification process is similar to the one of the training voucher

which will be described below.⁴ The consequences cannot be estimated for the time being but it seems likely that the introduction of a formal certification process will reduce the number of private placement agencies substantially.

4.2 Education and vocational training: From corporatist networks to a regulated quasi-market

As already mentioned, training and education programmes have never been delivered by the Federal Employment Agency itself but contracted to private providers. However, the provision of training programmes was substantially changed when the Hartz reforms came into force: vouchers, certification and accreditation, planning, quality control and competitive tendering are the newly introduced coordination instruments.

(1) *Vouchers:* In fact, the introduction of the training voucher (Bildungsgutschein) for long re-training programmes replaced the former de facto contracting-out system. As described above, the old system has been criticised because the contracting process was often carried out without public tendering and competition but was based on familiarity with the provider. More precisely, it has been argued that providers run by the social partners have been received preferential treatment by the local public employment agencies which were governed by a tripartite board (Kemmerling and Bruttel, 2006).

The work of the Hartz-Commission has then opened a window of opportunity for significant changes in the provision of training and education programs. Since 2003, the case worker has to issue a training voucher to the jobseeker if a training measure is deemed necessary for a future placement in the labour market. The training voucher has to state the educational goal, the core theme of the qualification and the duration of the course. After issuing the voucher, the jobseeker is free to choose an appropriate provider that offers the respective training measure. The case managers have no right to advice, support or influence the jobseeker in the search process but the Federal Employment Agency is offering self-search systems like electronic databases.

(2) *Certification & accreditation:* The jobseekers, however, are only allowed to choose among providers and measures which are approved by the Federal Employment Agency. The official recognition of private providers is based on a two-tiered approach.

- **Certification – the ticket to market entry:** The training providers as well as their training measures have to be certified by a private certification company according to input criteria like the capacity of the provider, the existence of a quality management system, qualification of personnel, sufficient classrooms, etc. The provider is free to choose among 32 certification companies (in 2011) and has to bear the expenses for the certification. Since the beginning of 2012, the Federal Employment Agency has a de facto veto against the certification of measures if their costs per hours exceed a defined threshold.
- **Controlling the controllers:** The certification company itself has also to be certified. Until April 2012, this has been done by an accreditation unit within the Federal Employment Agency. Although this accreditation unit was not subject to directives of the head of the

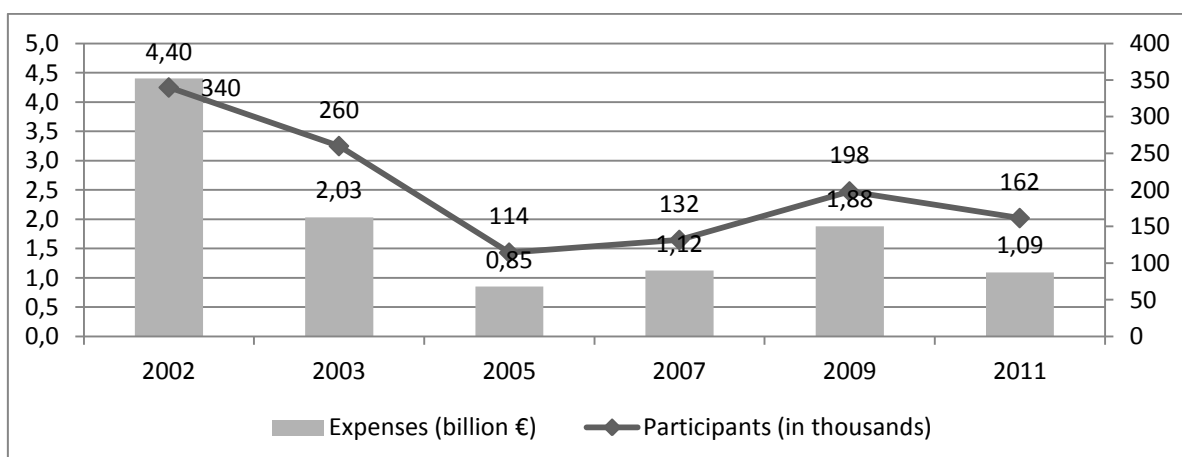
⁴ Furthermore, the reform of 2012 has also broadened the range of use of the placement voucher which is now called activation and placement voucher (Aktivierungs- und Vermittlungsgutschein). Like before, the voucher can be used by the jobseeker to mandate a private placement agency. What is more, it can now also be used for short-term measures like job application training or the subsidisation of internships, etc.

Federal Employment Agency, it has been criticised for not being independent enough (personnel interview). Thus, in 2012, the accreditation unit has been abolished and its tasks have been transferred to the Deutsche Akkreditierungsstelle (DAkkS). The DAkkS is a non-profit organisation (owned by the public purse and the industry) and acts as the national accreditation body for Germany. It assesses and monitors the technical competence of laboratories, certification and inspection institutions as an independent body.

The number of certified providers as well as the number of measures is steadily rising. However, in 2003, the number of training providers that are generating revenues from the budget of the Federal employment Agency has been estimated to be up to 20.000 (Bruttel, 2003). It seems that a certain market adjustment has taken place or that some providers have not invested in the certification process.

(3) *Planning:* Even though especially the local employment agencies and joint facilities have lost discretion in the selection of providers and the allocation of participants, their position is still influential. First of all, they decide if a jobseeker receives a training voucher or not. Secondly, every year, the local employment agencies and the joint facilities are developing a so-called Bildungszielplanung (regional training plan) designating which measures should and could be supported (e.g. qualification for geriatric care) and how many training vouchers should be issued for the respective measure. The most important criteria for the incorporation of training measures in the plan is the expected integration rate of participants signifying the percentage of jobseeker placed in regular employment within 6 months after the training measure has finished. Until the end of 2005, an internal instruction of the Federal Employment Agency has stipulated that training measures should only be funded if they have shown an integration rate of at least 70 %. After opposition from the provider associations as well as from the scientific community, the internal instruction has been repealed. However, the integration rate remains the most important indicator for case workers in order to judge the eligibility of training measures which has led to a sharp decline in the participants of training measures (personnel interview, for numbers see Graph 3).

Graph 2: Participants in training measures

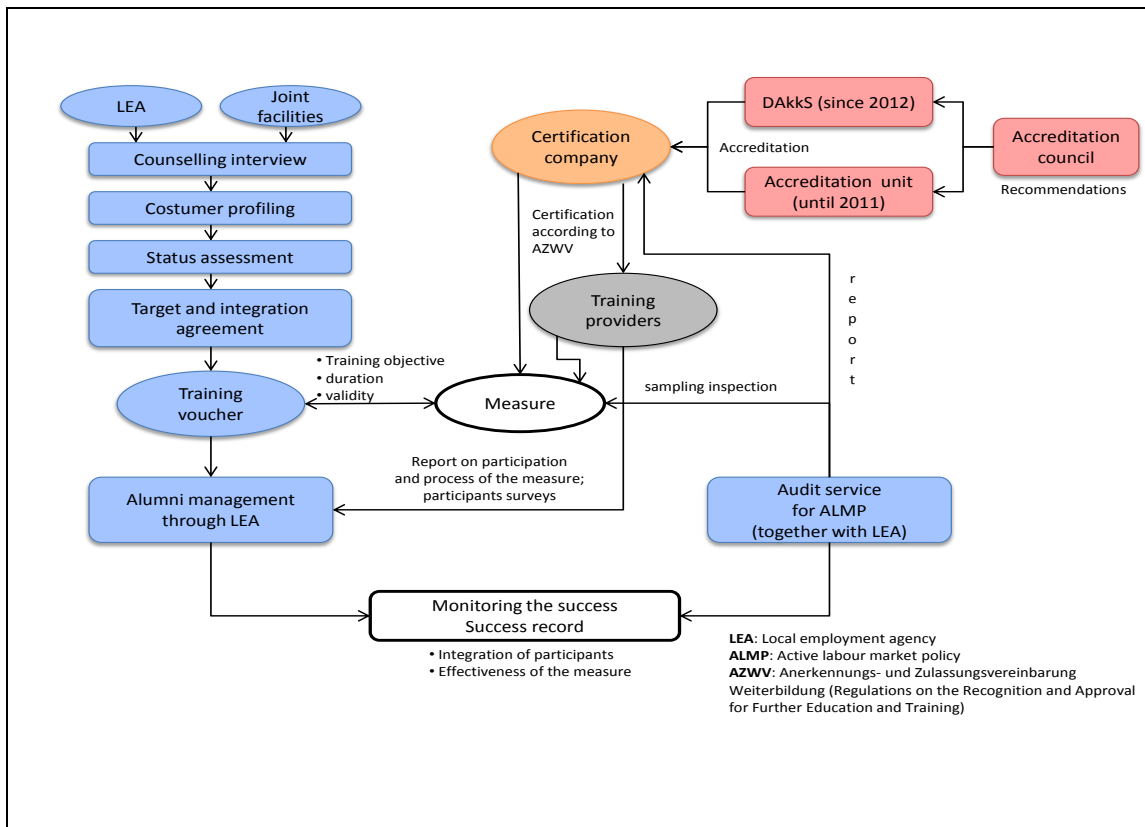


Source: own compilation, data from the Bundesagentur für Arbeit.

(4) *Quality control:* The local employment agencies and the joint facilities are also involved in the sampling inspections that are conducted jointly with the central audit service of the Federal Employment Agency. In 2011, 480 audits for long-term training programmes have

been conducted. Furthermore, the local employment agencies and the joint facilities can initiate own audits which normally are initiated by complaints of participants. The sanction mechanisms are twofold: Firstly, the results of the audits are reported to the certification company; in the worst case, the certification for the measure is removed. Secondly, the local employment agencies can withdraw a funding decision for a measure if detected shortcomings are not getting eliminated. However, this is an exceptional case and normally the conflicts are resolved in cooperation between the provider and the local employment agency (personnel interview).

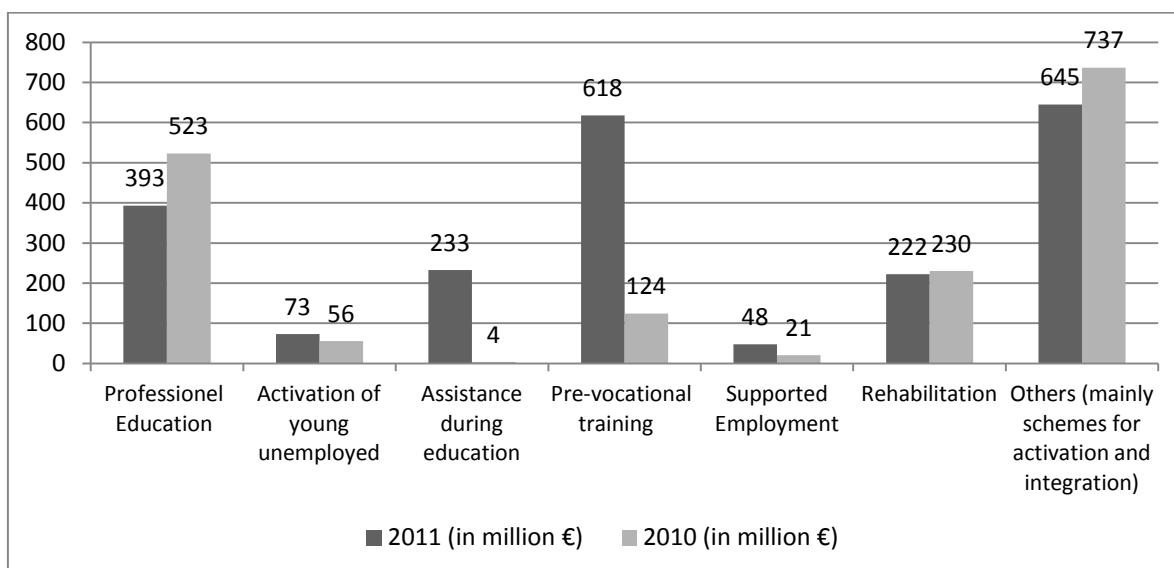
Graph 3: Certification, provision and quality assurance of training measures



Source: modified from Doerr and Kruppe, 2012.

(5) *Competitive tendering*: Most of all other measures of active labour market that are conducted by private providers and not funded by vouchers have to be purchased in a competitive tendering process. This includes assessment measures, short-term trainings, and specialised courses for persons with disabilities or courses for young or low-skilled persons who are not prepared to attend regular long term trainings. The standardised tendering system has been introduced in 2004: five regional purchasing centres (Regionale Einkaufszentren – REZ) have been established that conduct the tendering process in cooperation with local employment agencies and the joint facilities according to a standardised process. The involvement of the regional purchasing centres is compulsory for the local employment agencies whereas it is voluntary for the joint facilities. However, in 2011, more than 97% of the joint facilities have used the service of the regional purchasing centres.

Graph 4: Volume of tenders



Source: Bundesagentur für Arbeit

At the beginning of the tendering process, the local employment agencies and joint facilities are announcing their requirements to the regional purchasing centre. The regional purchasing centre prepares the bidding documents according to the announcements and then puts the measure out to tender for the whole region. The assessment of tender responses is divided between the local employment agencies and the regional purchasing centre. The local employment agencies are responsible for the functional assessment. The final selection of the proposals is then done by the regional purchasing centre according to cost effectiveness criteria. Quality assurance is also divided between the two actors whereas the regional purchasing centre is responsible for the imposition of liquidated damages and the local employment agencies have rather a monitoring function. The payment modalities differ from contract to contract and range from no cure-no pay models to a fixed compensation.

The establishment of regional purchasing centre was and is highly controversial. It has been criticised that the procurement of labour market services for a whole region is favouring large national-operating companies to the detriment of locally rooted providers with specialised knowledge of the regional labour market. This has led to a damage of well established local networks of labour market actors and to a marketisation of relations. According to these critics, the price has become the decisive criterion for the award of contracts which has excluded small-and medium sized providers from the market due to cost disadvantages. Furthermore, flexibility and individual solutions are constrained due to standardisation and the protracted procurement process (Wirth, 2007, 2012; Schütz, 2009). However, it must be said that there are no data about changes in the market structure as well as about changes in the pricing policy of the regional purchasing centre. Proponents of the reform invoke that the standardisation of the procurement process has generated savings and has fostered competition. Furthermore, it is argued that the quality of measures is rated higher than the price.

5. Discussion of the new coordination regime

With the introduction of a voucher system and a competitive tendering system and thus the introduction of a quasi-market two new sources of control became relevant, namely competing providers and customers impeding 'exit' in case of dissatisfying services (with the later mechanism as the weaker one). In the old system, competition as coordination mechanism was not or hardly ever given. In the case of placement services the public monopoly prohibited competition until 1994; in the field of training and education programs, the contracting-out system awarded contracts to a small number of local network members, which rarely altered over the decades. The labour market reforms from 1994 onwards, especially the far-reaching Hartz-reforms, diminished the barriers for market entry and opened the field for new providers. The facilitation of market entry impacted not only on the number of providers and the welfare mix, but also the instruments of coordination. Price became a dominant coordination mechanism, which influenced the organisational strategies of the providers as well as the contracting decisions of the Federal Employment Agency. The introduction of the voucher system has constituted consumer choice as a new mechanism for the distribution of participants and resources in the training sector. However, their possibility to act as informed consumers on the training 'market' remains limited. Though the vouchers allow clients to choose their placement or training provider, their purchasing power is restricted as both the content and extent of labour market services are fixed in the voucher (Bruttel, 2005). Moreover, the exercise of consumer choice is hampered by continuing information asymmetries. The holder of a training voucher has to rely on the information that are provided through a database of the Federal Employment Agency and on the advertising of the providers. Independent information regarding the quality of the offered services, however, are not available for the jobseekers. While it might be manageable for those who are used to conduct online research self-motivated and without assistance to find service offers with the desired content, the voucher system leaves those who are most in need of active labour market policy, e.g. low qualified or migrant jobseekers, alone. As a matter of fact, the voucher system reinforces social inequalities as it gives good qualified jobseekers a competitive edge (Bruttel, 2005). The recent evaluations have shown that especially jobseekers with low labour market chances – such as those without vocational qualifications – are less likely to redeem the vouchers (Kruppe, 2009).

Instead of critical clients, bureaucrats from the Federal Employment Agency keep on being the most important agents for coordination: They are the real purchasers controlling market entry, prices as well as the quality of the services delivered. With respect to the intensity of hierarchical coordination, however, differences between the two branches of German active labour market policy – placement services on the one hand, training and education programmes on the other hand – have to be taken into account. In the case of training and education programmes, the tasks and competences of public administration to regulate the newly established quasi-market were from the very beginning much more elaborated than in the placement sector. This becomes especially apparent with regard to the control of market entry. Whereas in the placement sector, the barriers for market entry have been abolished nearly completely and providers only need a 'normal' business licence, the Federal Employment Agency selects very carefully its market partners in the case of training and education providers.

In both sectors, hierarchical coordination in the new system has only few in common with the mechanisms of coordination in the old system. The organisational structure of the Federal Employment Agency as well as the modes of interaction with private providers has been subject to far-reaching reforms. In order to enable the Federal Employment Agency for the new tasks as a market regulatory agency, substantial organisational reforms have been implemented and new internal divisions which are exclusively in charge of the regulation of the new quasi-markets have been established. The 'Anerkennungsstelle' – the internal accreditation unit which had been responsible for the control of market entry of providers for training and education until 2012 – is one example. An even more prominent example signifying the shift to a market regulatory agency, however, is the establishment of the five regional purchasing centres. While a formal organisational split between purchaser and provider had always been given, the Hartz-reforms introduced a differentiation between three roles: there are, first, the orderers, namely the local employment agencies, second, the purchasers – the five regional purchasing centres - and third, the private service providers. The regional purchasing centres have much contributed to challenging the former regime of corporatist network coordination based on long term relationships and trust and to reinforcing market coordination through a price and quality competition as well as hierarchical coordination. In particular in the early years after the implementation of the Hartz reforms, the price of the offers and realised placement rates in former contracts were the dominant mechanisms which controlled the selection process. After severe criticism from welfare associations and trade unions complaining about a solely price-oriented purchasing policy which not only neglects the needs of job-seekers but contributes to making working conditions in this particular service industry even more precarious, the modes of selecting offers have become more sophisticated. Today, the regional purchasing centre puts much more effort in order to find a balance between the qualities of offers (operationalised mainly through input criteria, putting the importance of the placement rate into perspective), the fitting accuracy for regional distinctions, and the price (personnel interviews). However, most of the providers are still of the opinion that there is a price competition which endangered the quality of training measures (Koschek, 2010).

The purchasing centres constitute not only an example for weakened network coordination in favour of reinforced market coordination but also for the *modified content* of hierarchical coordination which becomes first and foremost apparent in the shift from input-oriented, procedural rules and regulations to a greater emphasis on quality and performance oriented coordination through quality control systems, inspection arrangements, contract management, etc.

The modification of traditional hierarchical coordination and the shift to a market regulatory system become also obvious in the establishment of new private (for-profit and non-profit) independent intermediaries who act as external coordination and control instances in the name of the Federal Employment Agency. Examples for such new intermediaries are the 32 certification companies and the DAkkS, both involved in the regulation of market entry and enforcing 'diagonal' lines of coordination between private providers and public administration. While the certification agencies, the DAkkS, and the REZ try to judge the quality and performance of *potential* service deliverers and thus regulates the market entry, the internal audit unit assesses the quality of the services during and after service delivery.

At first sight, the new modes of the Federal Employment Agency to coordinate private providers seem to be a reasonable sequential arrangement with elaborated mechanisms in each

critical stage of the provision process. By taking a closer look at the content of the different mechanisms to coordinate and control the “market” of private providers, however, problems occur as each of the involved organisations considers slightly different aspects as important. Accreditation and certification are mainly based on input and process related criteria and have a proximity to the international ISO norms. The local employment agencies are more focussing on the implementation quality of a measure whereas the internal audit unit is also looking on the impact of the measures (Sauter, 2009: 34). Therefore, it is possible that either the audit unit or the local employment agency finds shortcomings in the training measures without subsequent sanctioning by the certification agency, because they have different criteria. The regional purchasing centres, by contrast, are still mainly focussing on the price.

Finally, what can be observed is an increasing government activity in regulating the service delivery by private providers adding another hierarchical layer to the system. Whereas the instruments of active labour market policy have always been subject to regular reform activities, the process of assigning jobseekers to the different measures has remained stable and the incorporation of private providers in the delivery of services was mainly the responsibility of the local employment agencies. The situation has changed through government attempts to create a competitive market and to insure quality standards within the market. This has led to detailed regulations that prescribe the certification process, the procurement procedures as well as audits and inspections. In other words, the introduction of market competition has brought a process of increasing regulation. These rules are regularly adjusted which signifies a broader political involvement in a field which has been yield to the self-regulation of the corporatist network so far.

The German example of modified coordination of private providers of labour market services is part of broader process of liberalisation that has taken place in advanced Western European economies. In the past decade, the long term stable corporatist network in German labour market administration has been abolished and as a result, network based mechanisms of coordination based on long term relationships and mutual interdependence have been repressed. The introduction of new modes of active labour market governance has led to a system which is mainly based on competition, especially when it comes to the procurement of programmes and measures and to the assignment of jobseekers to the different measures. However, the private providers are also involved in a dense regime of hierarchical coordination which is mainly based on the introduction of certification standards as well as several ex-post control mechanisms of providers and measures. The combination of both measures is necessary as the exit option as a sanctioning mechanism in a voucher system is limited: It is extremely difficult for jobseekers to judge the quality of a qualification or training measure and even if he or she could do so, the incentives to leave a course and choose another provider are rather low as it is not the jobseeker that is paying for the course. Next to this, market failures like creaming and parking have to be eliminated. This results in a constant tension between the stimulation of competition between providers including freedom of choice for the unemployed and the reduction of socially undesirable risks (Struyven, 2007). This tension becomes also evident in the coordination mechanisms that combine command and control with competitive elements.

As a matter of fact, governance of German active labour market policy resembles much more a quasi-market than a real market. Thus, rules and regulations play a more important role than

consumer choice. Albeit the shift to market based governance, main responsibilities for public services have remained in the hands of public actors. Nonetheless, the changes in the coordination of the provision of employment services should not be underestimated. In order to accomplish quasi-market regulation, the traditional hierarchical input-based mechanisms of coordination have been subject to far-reaching reforms, too. The modes of social interaction between public administration and private providers have changed completely and have become more market akin. New instruments, such as certification of private providers or active monitoring of service contracts as well as new actors, e.g. the private certification companies, have been introduced. Thus, ensuring coordination in a quasi-market system calls for a complex balancing between command and control and the creation of room for market competition.

If we take the aims of the reforms as a point of reference - competition between different types of providers, transparency in the official contracting terms for the award of service contracts, a better quality of the services provided, and enlarged consumer choice to boost self-responsibility was intended (Sauter, 2009) – a partial success has been achieved: increased competition, improved transparency concerning the interaction between the Federal Employment Agency and the private providers, and enhanced responsiveness of the offered services of private providers to jobseekers' needs has indeed been reached. The cost, however, is decreased flexibility at the local level due to the preference of large providers offering many but standardised products. There is an in-built tension between higher standardisation and flexibility and discretion for the providers of employment services.

To sum up, what can be observed is that the network-based system of welfare corporatism has not been replaced by another dominant coordination regime but has led to a hybridisation of coordination arrangements combining a mixture of market and hierarchical elements.

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Annex: List of persons interviewed

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2.	Senior bureaucrat of the Federal Ministry of Labour and Social Affairs
3.	Senior bureaucrat of a regional purchasing centre (Regionales Einkaufszentrum)
4.	Representative of a private certification company
5.	Senior bureaucrat of the internal audit unit (Prüfdienst AMDL)
6.	Senior bureaucrat of a local employment agency and a joint facility
7.	Representative of an association of training providers
8.	Researcher of the Institute for Employment Research (IAB)