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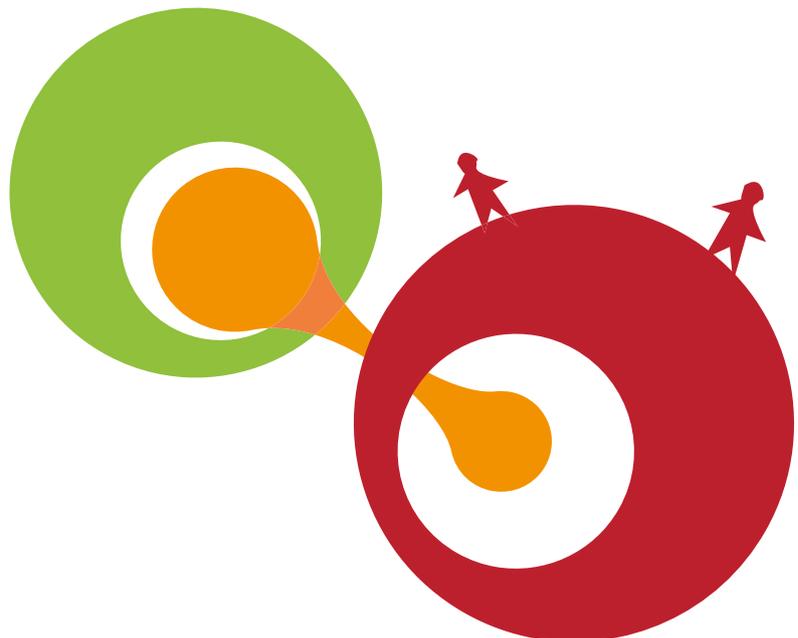
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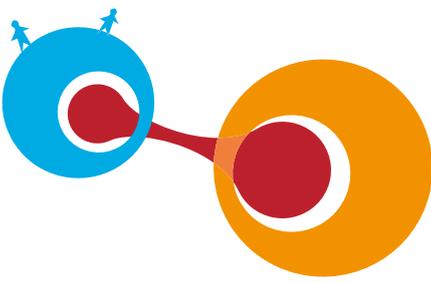
PES NETWORK SEMINAR 'MAKING THE PES BUSINESS CASE'

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1. Introduction

In the private sector, business-case analysis is a management tool supporting decision-making on whether to take a particular course of action or chosen alternative. Today, business case analysis is increasingly used in government agencies, including in PES management. Based on available data and information the costs, benefits and risks of a particular course of action are systematically assessed. It serves not only as a basis for initial decision-making but also as an essential element of project management, identifying success factors and expected outcomes in terms of which performance can be assessed. It is also a form of communication and persuasion used to gain support for a particular course of action or programme.

The importance of making the PES business case has been a topic discussed within the PES Network and the European Commission and it was further explored during the 'Making the PES Business Case' seminar, which took place in Brussels on 17 January 2017. The goal of the seminar was to carry the discussion forward and to better understand what drives PES investments and decisions and how decision-making can be improved; how to justify decisions to stakeholders and how to articulate the wider benefits of PES services to citizens and society as a whole (public value). The seminar participants emphasised in particular two aspects of 'making the business case', evidenced-based programmes and policies based on good data collection and evaluation practices as well as communication not only with stakeholders but also of the public benefits of PES activities. It was often expressed that good results are not sufficiently recognised.

The seminar posed the following guiding questions to participants:

- How can/do PES measure the socio and economic impact of services on the labour market (and wider society)?
- What steps can be undertaken to better measure impact of PES activities and how can the outcomes be shared with stakeholders?
- How do results inform future decisions of the PES on services, measures and processes?

In addition to plenary discussions, separate workshops addressed four specific aspects of the topic:

Accountability

- How can PES develop and foster transparency in decision-making and accountability?
- Who are PES accountable to and how do they provide information?

Measuring quality and efficiency

- How are PES measuring the quality and efficiency of their services including on specific target groups and the wider labour market?
- What can PES learn from the wider public sector?

Measuring impact

- How and where are PES measuring the macro socio-economic impact of their activities? What areas of impact are measured?
- What information is used to demonstrate return on investments? To whom?

Communicating the added-value of the PES

- How do PES engage in strategic communication activities to show the impact they have on their target audience?
- How do PES use communication activities to create awareness of their services and measures?

This report summarises the seminar contributions and findings structured according to the four principal thematic areas covered: accountability; measuring the efficiency and effectiveness of PES programmes and services; measuring impact; and lastly, communicating the added value of the PES. The report concludes a discussion of future directions for learning.

2. Accountability and transparency in decision-making

Making the business case to PES supervising authorities and other stakeholders is based in the first instance on performance accountability. Performance accountability in modern PES is usually based on some form of management by objectives (MBO) and formalised in an annual performance agreement between the PES and its supervising authority, normally the responsible ministry. It states the goals to be pursued and targets to be achieved during the course of the agreement, ideally co-ordinated with the personnel and financial resources available to the PES in order to achieve these objectives. The annual business plan with clear goals and performance targets

makes decision-making and responsibilities transparent, both internally and externally, and provides an agreed basis for assessing performance at all levels of the organisation. A management information and controlling system should ideally provide real time information on progress toward targets based on agreed indicators. Performance results for the national PES and for local units are usually available on a monthly basis and reported regularly to the responsible governing board, ministry, or, in the case of decentralised systems, local authorities. Performance results are made available to the general public at least annually. Transparency is an essential element of accountability at both the national and policy implementation levels.

This management approach has immense benefits for ‘making the PES business case’. It clearly defines the expectations in terms of which PES performance can be assessed by supervising authorities, other stakeholders and the public at large. If the subject of a genuine and open negotiation coupled with agreement over the necessary resources to achieve the stated targets – which may not always be the case, it provides a realistic and objective basis for judging PES performance. Otherwise the PES, seeking to be a principal labour market public actor and ideally ‘conductor’, may easily find itself on a ‘mission impossible’ – facing unrealistically high and conflicting expectations without adequate resources.

Both the concrete PES accountability frameworks – to whom, what and how they report – and their accountability challenges depend on their governance structures and, whether they are national hierarchically structured organisations, decentralised or, in some countries, have outsourced many functions in more market-based environments. In centralised systems, national PES are accountable directly to their own governing bodies or responsible ministries, depending on whether they are a constituent part of a ministerial department (e.g. UK), an executive agency directly subordinate to a ministry (e.g. Hungary, Bulgaria, Lithuania, Czech Republic), or an autonomous tripartite authority (e.g. Germany). In general, the latter tend to have significant financial and decision-making autonomy under policy guidelines set by law and the supervising ministry, whereas executive agencies are directly subordinate to the ministry with only limited discretion in implementation. Like all public agencies, the PES are ultimately accountable to government and parliament.

PES that are part of a ministry, or an executive agency subordinate to the ministry, are accountable to and report directly to the ministry, whereas the PES that are autonomous public bodies report in the first instance to their own governing board. What and how reporting takes place varies of course considerably depending on the particular PES organisation and can be influenced by the prevailing political situation.

In a mature performance management system, desired employment policy objectives are converted into a clearly defined set of goals and performance targets for the PES as a whole and for the subordinate levels of the organisation. This serves as the basis for an annual business plan and performance accountability. Progress toward targets is continually monitored at all levels of the organisation and reported periodically throughout the business year. Regional and local offices are accountable in the same way to higher levels of the organisation.

3. Accountability in decentralised PES

In decentralised PES business models, lower tiers of government (typically regions or municipalities) are directly responsible for implementing labour market services. In this case the implementing agencies are no longer subordinate departments of a central administration but autonomous political entities, or agencies created by them. In such complex multilevel governance the relationship between central and regional or local authorities is inherently less hierarchical and accountability is often weaker, from the perspective of central authorities. There is a trade-off between local flexibility and central accountability.

Peter Graversen (The Danish Agency for Labour Market and Recruitment) presented the recent reforms in the accountability framework of the Danish PES, in which there is a far-reaching decentralisation of responsibility for implementation to the municipalities. Although regulated by national law and nationally funded, the 94 municipal Jobcentres are agencies or departments of the self-governing municipalities and, unlike the former local PES agencies, they are neither part of the PES nor subject to its hierarchical policy direction. In order to ensure central accountability in the context of political decentralisation there is a complex regulatory and management framework the principal elements of which are:



1. Minimum statutory standards for municipal labour market services;
2. Reliance on financial incentives in the form of conditional state reimbursements of part of the costs of benefits to the municipalities instead of administrative supervision;
3. National IT-systems that ensure full transparency of results and efforts across municipalities;
4. A parallel system of dialogue-based performance management.

The new simplified reimbursement system introduced in January 2017 involves a step by step reduction in the reimbursement rate with increasing, cumulative duration of unemployment. It is intended to encourage the municipal jobcentres to undertake early efforts to reintegrate the unemployed. There is a risk that the emphasis on quick reintegration may be at the cost of getting people into more suitable jobs. In Germany, for example, there are performance indicators not only for faster reintegration but also for the suitability and quality of employment offers. In such a decentralised system, it is important to share knowledge and experience across municipalities as to what works and what doesn't. The Danish Agency for Labour Market and Recruitment (STAR), at the national PES level, plays a central role here as well as in the system of dialogue-based performance management.

4. Measuring the efficiency and effectiveness of PES programmes and services

The efficiency and effectiveness of PES, as for other market interventions by government agencies, can be described and analysed from two perspectives. An organisational view (as a function of management and productive efficiency), and scrutiny of economic efficiency and effectiveness (at micro and macroeconomic level) can both be obtained.

The organisational and managerial perspective is an applied problem of production technology: how to allocate the inputs into the production process in an optimal way to achieve the highest possible level of output. Benchmarking of productive efficiency, e.g. using local PES office data, represents an extremely useful exercise to uncover the maximum possible output of a PES at given resources and to understand how efficient the production process for the output is. However the analysis of

productive efficiency cannot tell us what specific combination of outputs (e. g. programmes and services) to produce. To understand the specific combination of outputs which should be chosen is a question of allocative efficiency.

The allocative efficiency and economic effectiveness of PES at micro and macroeconomic levels is normally discussed in terms of the labour market effects achieved and whether their interventions have improved outcomes relative to non-intervention in the market, i.e. whether additional employment opportunities were achieved. The economic effectiveness of PES refers to measures of cost-effectiveness. Therefore, economic effectiveness is usually assessed in an economic cost-benefit analysis (CBA). CBA is not a replacement for political choice; it only offers a particular method of policy impact analysis to provide learning and present choices on the basis of a consistent evidence-base utilising a series of CBAs to make improvements in market interventions.

5. Measuring the impact of PES services

The first important element in measuring the economic effectiveness of PES interventions is therefore to obtain an estimate of the programme impacts for participants, i.e. increased employment rates, earnings and reduced benefit dependency because of a successful intervention. These net impacts over the counterfactual can be obtained from various types of empirical evaluations, which measure the observed outcomes of participants and compare them to a counterfactual measure of non-participation for the same set of outcomes (e.g. employment, earnings). The main methods to estimate counterfactuals used for PES interventions are Random Control Trials (RCT). With RCT, an experimental design allocates two groups with similar characteristics, for example specific types of jobseekers, to intervention and control groups in a medical trial. In practice, a great variety of other research design is applied to obtain quantitative impact estimates of programmes. These range from qualitative methods and systematic collection of stakeholder information via survey questions about the increased employment for participants, to before-after comparisons of individuals. In order to understand the economic impact of programmes, for example increases in employment rates or transition rates from benefit receipt to employment, these designs are often



less robust. This is because the (implicit or explicit) estimation of the counterfactual outcome requires more assumptions than for an RCT or if differences between participant and counterfactual are explicitly addressed.

Information used to demonstrate return on investment

Amongst the key measures of social benefits are; the number of genuinely additional employment opportunities, the related earnings and further employment-related impact measures from reduced benefit payments to increased labour taxation, increased consumption and potential employer's profit related to additional employment. On the other hand, the main social costs are programme expenditure and further charges incurred by the individual (e.g. childcare cost or lost home production). Therefore, firstly the number of additional jobs from any PES intervention needs to be estimated.

Once estimated and additional employment and earnings gains from PES interventions have been identified, a Cost-Benefit Accounting Framework needs to be established to estimate the social returns from programmes and related costs in monetary terms. Such an accounting framework transforms the economic impact measures (additional employment) into monetary values using specific valuation parameters, for example using observed programme costs or the wages for the additional employment gained from administrative data. Implementing a CBA using such a framework results in identifying monetary values of aggregate costs and benefits for society at large, i.e. to understand whether gross earnings and work benefit outweigh the social investment, in particular the programme operating costs. It can also be used to derive net economic benefits for specific stakeholders, for example the government or the individual.

Using evidence on economic effectiveness and CBA to facilitate decision making

The economic analysis of PES in terms of productive and allocative efficiency offers important opportunities to improve the operational work within PES as well as to more generally enhance provision for PES customers enabling them to access programmes which offer them the greatest possible benefit in regaining and retaining employment. However, this can only be achieved

if the evidence base for PES efficiency and effectiveness evolves continuously, is up-to-date, accessible and jargon-free to a wide variety of stakeholders, both inside PES and for wider stakeholders including social partners and national governments.

At the heart of an evolving evidence-base, which facilitates learning for better PES decision making, is the continuous analysis of programme impacts and effectiveness of PES intervention and the subsequent application of economic analysis to establish measures of cost-effectiveness. Such an analysis needs to be undertaken for all major programmes, repeatedly over time as the economic cycle and further circumstances change, and must consider the main client groups so as to account for possible heterogeneity in programme impacts. Over time, the growing evidence base of rigorous studies of programme effects will help improve both programme provision and PES operations provided that the research designs chosen sufficiently address the issue of estimating the benefit above 'business-as-usual' or counterfactual non-intervention.

CBA can serve as a powerful tool for policy learning if the evidence of economic net benefit of PES interventions is consistently applied in a coherent cost-benefit framework, so that all programmes can be consistently assessed in terms of spending-return ratios. Without a CBA linked to every micro (and macro) economic study on programme impacts, it is not possible to make clear decisions about the best resource allocation as programme costs vary substantially. Therefore, net employment gained from market interventions as shown by rigorous impact studies needs to be related to a clear estimate of the individual and social cost for specific interventions.

Such work would have to establish clear and universal CBA models across all varieties of PES intervention and relate spending on specific programme to empirical estimates of programme impacts and related information in order to derive the social benefit from additional employment. Implemented consistently across PES, CBA would facilitate the allocation of resources to make best use of PES spending in the light of anticipated social benefits of programmes using a common currency, i.e. net social benefit in monetary terms. The models could also be used to derive spending-return ratios such as social returns to investment, for example to decide about the best programme

to choose if all those for a specific target group show positive net benefits.

Participants noted the challenging prerequisites for continuous analysis of PES programme impacts and effectiveness with regard to data collection, continuity in the analytical framework and, implicitly, in the policy environment. Political frameworks change regularly and impact evaluation and CBA require a considerable time span for data collection and analysis. That CBA results may vary depending on actors' perspectives, society, participants and government. In practice this means that they also vary for different interest groups or even departments or levels of government. Ideally, the CBA results provide a basis showing the broader social value of PES activities, for which the costs but not the benefits are very explicit.

Torben Schewe (Federal Employment Agency Germany) presented an overview of tools and approaches for impact analysis in Germany with particular attention to the 'TrEffeR' methodology, designed to measure the effectiveness of active labour market programmes. TrEffeR is only one approach used in addition to randomised and natural experiments. TrEffeR uses the extensive microdata available to the PES for its clients (insured unemployed people) to construct ex-post a control group of statistical twins for programme participants. Measured results are mixed:

- 'In-firm' programmes like wage subsidies, start-up subsidies and short trainings with a practical focus (internships) improve the employment prospects of the treated individuals;
- Vocational training/retraining and short classroom training shows only slightly positive effects on employment prospects;
- Job creation schemes do not improve employment prospects;
- Mixed results have been reported for private placement and counselling services.

TrEffeR is, however, only a partial analysis since, for example, windfall gains and substitution effects are not included. Moreover, some target groups are not covered by TrEffeR, for example, unemployed young and disabled people since not enough data is available to create the relevant control groups. It is however deemed quite useful for a variety of purposes including, product development, optimisation of allocation strategies and internal control of costs and success.

The Danish PES, and ACTRIS (the Belgian-Wallonia PES), also report using a control group methodology. Denmark includes social data in the PES data base in order to provide necessary information for matched comparisons. Programme cost data is only available for harder to place target groups because they are outsourced, not for services provided directly by Jobcentres, except for counselling. VDAB (the Belgian-Flanders PES) relies heavily on an evidence-based approaches to ensure that measures reach the right target groups. It has recently introduced activity based costing as part of its effort to measure long-term efficiency/effectiveness of measures. In addition, the Lithuanian PES relies primarily on customer satisfaction surveys to improve services and monitors key indicators of active labour market measures based on administrative data.

6. Communicating the added value of PES

The PES is a public service with a large number of stakeholders and millions of customers and obviously engages in extensive communication as part of its day-to-day activities. Strategic communication here is a special segment apart from routine operational communication activities that aims to maintain the corporate image of the PES as an institution and support management of its relationships with key stakeholders. Both the reputation of the PES as an institution as well as its successful functioning and performance in the labour market depend on the continuing willingness of these actors to work with and support it.

Strategic communication also implies that communication activities are planned and organised in a systematic way as an element of strategic management. Whether, and to what extent, PES engage in strategic communication is unclear. There has been relatively little study of communication activities in the public sector as a whole and there is no systematic study of PES strategic communication practices and strategies.

As a minimum strategic communication requires the following points:

- Definition of PES identity and role;
- Identification of key stakeholder groups at all levels;
- Definition of the goals of PES communication and a communication strategy for each stakeholder group;



- Effective management of its relationships to key stakeholders, customers and the public; and
- Regular stocktaking of communication and working relationships, listening as well as telling.

In the course of public sector management reforms over the past two decades public sector organisations have become more concerned about their corporate image and reputation. A strong corporate image is deemed to pay benefits in terms of public support, protection from political criticism, as a part of presenting the PES case in debates concerning possible outsourcing and privatisation, and protecting staff morale and recruitment. Nevertheless, strategic communication is more constrained in important respects and reputation management more difficult in the public as opposed to the private sector.

The literature on reputation management in the public sector indicates that government and public sector service agencies are regarded more sceptically and have a poorer reputation than their corporate counterparts, albeit with considerable variation in attitudes across countries and among different types of services.

Greta Metka Barbo Škerbinc (Employment Service of Slovenia) presented the communication strategy of the Slovenian PES adopted in December 2015, as part of their 2020 Strategy. Its purpose is to define services to different target groups and increase their utility, to achieve a better understanding of PES activities and to improve its image. It defines the PES as a user-focused organisation that is a key facilitator in the labour market. Although the Slovenian PES is responsible to the ministry, it is an independent institution and has developed its own centrally planned communication strategy and involved internal staff in communication activities on a daily basis. The strategy is summarized in a written document and identifies internal and external target audiences and external target groups. Different communication strategies are defined for different target groups: users of PES services, providers, the public sector and other stakeholders. The ministry is defined as an external stakeholder with whom the PES co-operates, providing data on a weekly basis. A variety of media and communication avenues are used tailored to different user and stakeholder groups. The Slovenian PES also undertakes regular reviews of their

employer strategy to understand how employers want to be communicated with and uses focus groups, e.g. to develop online services. Employers and other stakeholders were consulted in the development of the PES communications strategy.

Participants emphasised that communication should be local as well as national. In Denmark data provided to local media and stakeholders on the local employment situation has made the Jobcentre more relevant. Positive messages are also important not just information on unemployment rates, examples are data on the number of vacancies (VDAB) or on job growth. Greater transparency in France means that information is published twice a year for four strategic indicators (return to employment, timely payment of benefits, employer and employee satisfaction and case-loads). This information is also presented in disaggregated form to the local tier in press conferences.

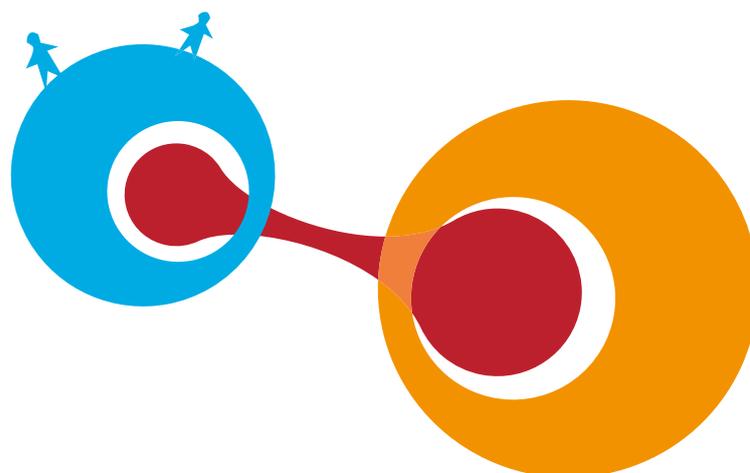
Some PES report using social media to communicate, especially with young people. Slovenia has a Facebook page, as well as using LinkedIn and YouTube. VDAB has a VDAB 'Be a Fan' on Facebook campaign. The French PES uses Twitter to publish news and look at the number of times a message has been 'retweeted' (shared), who has read it and how many comments there are on each 'retweet.'

In highly decentralised systems, local PES offices often have different identities and a unified communications strategy is difficult to achieve. In Denmark, the local Jobcentres may have different messages to each other and their messages may conflict with those of ministers and therefore can be difficult to manage. Participants reported mixed results in using external PR companies to develop their PES communications strategies. Denmark and Slovenia report relying primarily on upskilled internal staff because they are most familiar with the PES mission and messages. In some countries (for example, Germany) commercial TV adverts have been used to make PES programmes and services better known, for example, for outreach to inactive people to encourage re-entry into the labour market. There are however sensitivities in certain MS about using particularly commercial media to promote PES messages.

7. Closing reflections and future directions

In their closing remarks participants highlighted several themes and possible future directions:

- Looking beyond cost benefit analysis is important. There are PES social returns that are difficult to model or measure, for example, combating social inclusion. This is part of the PES Network mandate, and specified in the legal text establishing it, but there is at present little hard evidence on this point.
- Communication activities by PES are an under-researched area. There are often negative perceptions about PES, despite their positive role (placing people into jobs). Communication strategies and branding of PES services could be further explored by the PES Network.
- With technology changes, a large number of jobseekers will no longer be involved in traditional mediation and PES are therefore likely to need to spend more time with the hardest to reach.
- Participants expressed a desire to explore each of the workshop topics in much greater detail.



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