

Between cooperation and competition: the organisation of employment service delivery in the United Kingdom and Germany

Vanesa Fuertes¹, Bastian Jantz², Tanja Klenk², Ronald McQuaid³

¹Edinburgh Napier University, Edinburgh, UK

²University of Potsdam, Postdam, Germany

³University of Stirling, Stirling, UK

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Contact address:

Bastian Jantz

University of Potsdam - Chair for Political Science, Administration and Organisation

August-Bebel-Str. 89

Potsdam 14482, Germany

Tel: +49 3319773402

E-mail: bjantz@uni-potsdam.de

Secondary contact address:

Vanesa Fuertes

Employment Research Institute, Edinburgh Napier University

219 Colinton Road

Edinburgh

EH14 1DJ

UK

Tel: +44 1314554571

E-mail: v.fuertes@napier.ac.uk

Abstract

The increased emphasis on labour market activation in many European countries has led to new forms of governance in recent decades. Primary through qualitative data and document analysis, this article compares the restructuring of labour market service delivery in the UK and Germany. The comparison suggests the emergence of complex governance arrangements that seek to balance public regulation and accountability with the creation of room for market competition. As a result, we can observe in both countries a greater use of markets, but also of rules. While in both countries the relationships between different providers of labour market services can best be described as a mixture of cooperation and competition, differences exist in terms of instruments and the comprehensiveness of coordination initiatives. The findings suggest that the distinctions between governance models may be more important in theory than in practice, although the combinations of theoretical forms vary in different circumstances.

Introduction

As a result of demographic, economic and political challenges, recent decades have seen changes in welfare state paradigms and in the governance of social policies in many European countries (Lindsay & McQuaid, 2009; Taylor-Gooby, Larsen & Kananen, 2004; van Berkel & Møller, 2002). There has been a move, in general, towards greater labour market activation that is changing the relationship between citizens and the state, and which has increased to varying degrees the levels of support and the compulsion to participate in the labour market. This has fostered reforms that are aimed at re-organising and coordinating social assistance and labour market policies, as well as increasing the interaction and cooperation of services providers (Champion & Bonoli, 2011; Karjalainen, 2010). Changes in labour market policy have taken place within the context of wider changes to the provision of public services.

Instead of traditional bureaucratic instruments, there has been a trend towards the greater use of quasi-markets in service delivery, representing a shift in the governance structure of public services often associated with New Public Management (NPM) theories (Bevir, Rhodes, & Weller, 2003). Amongst other effects, there has been an increase in the number of stakeholders (public/private/third-sector) delivering public services, which has been linked to the fragmentation of service provision and to the interaction and collaboration across policies and stakeholders increasingly being sought (Steward, 2005). The question remains as to how and why the role and form of stakeholder coordination has changed in the implementation of activation policies.

There is growing research interest on the reforms to the delivery of active labour market policies (ALMPs), particularly on operational governance and the way employment services are administered (Considine, Lewis, & O'Sullivan, 2011; Dingeldey, 2011; Finn, 2005; McQuaid, 2010; van Berkel, 2011). However, research related to the achievement of stakeholder coordination during policy *implementation* is still relatively limited. Moreover, past research has mainly focused on mapping changes in the governance of ALMPs, while research trying to explain coordination changes is still lacking (Champion & Bonoli, 2011). The current article addresses this research gap. The central focus and the contribution of this article is the analysis and comparison of changes taking place in the operational governance of current activation policies in Germany and the United Kingdom, and the explanation of some of the possible reasons behind these changes. The article also presents and compares the types and comprehensiveness of stakeholder coordination. This is achieved through a thematic analysis of policy documents and semi-structured interviews conducted with senior stakeholders in relevant organisations. Governance typologies (based on Considine & Lewis, 2003) are used as the broad theoretical framework for the article, while theories of

institutionalism and path-dependency are considered when accounting for the changes observed in the operational governance of activation policies (Champion & Bonoli, 2011).

The remainder of the article is organised as follows. First there is a discussion of activation, governance types and institutional impact. The methodology and theoretical assumptions are detailed next, followed by an analysis of changes in the operational governance of labour market policies in Germany and the UK. The article ends by discussing the differences between, and possible explanations for, governance and coordination modes found in each country.

Activation and coordination

In the past decade, labour market policies in many European countries have been subject to reforms under the label of ‘activation’ (Aurich, 2011; Bonoli, 2010; Dingeldey, 2009; van Berkel & Borghi, 2008). The emphasis is no longer primarily on income protection but on the labour market activation of working-age individuals (Jantz & Jann, 2013). Although activation approaches and policies vary amongst countries (including the tools used, the level and types of support provided and the level of coercion or autonomy afforded), there are a number of common characteristics that can be observed: redefinition of social issues as a lack of participation (in the labour market) rather than lack of income; a greater emphasis on individual responsibilities and obligations; enlarged target groups; integration of income protection and labour market activation programmes; and individualisation of social interventions (van Berkel & Borghi, 2007).

It has been argued that effective governance of activation requires not only formal policy reforms (i.e., new content of labour market programmes or reform of benefit systems), but also operational policy reforms (van Berkel & Borghi, 2008), transforming the paradigm of the welfare state from a purely sector-based ‘silo’ to a multi-sector joined-up seamless

service delivery (Karjalainen, 2010; Saikku & Karjalainen, 2012). Thus, recent trends toward activation have fostered reforms aimed at re-organising and coordinating the social security and labour market systems for working-age people (Champion & Bonoli, 2011; Genova, 2008). In addition, it has been argued that ALMPs need to be more holistic and service-user focused, allowing more effective multi-dimensional (diverse policy areas) and multi-stakeholder (various service providers) coordination and support (McQuaid & Lindsay, 2005; Green & Orton, 2009; Lakey, Barnes, & Parry, 2001).

Yet, an important question is how multi-stakeholder coordination is to be achieved? Joined-up (government and services), networks and partnerships have been ‘buzz-words’ in relation to public service planning and delivery. However, empirically, there is the question of whether the apparent rise of network governance has substance and changes activities on the ground, and whether it is characteristic of the implementation of activation policies. Indeed, the results of Considine and Lewis’s (2012) research even suggest a declining importance of network governance in some cases.

The governance of active labour market policies

Governance is understood as an all-encompassing framework of interactions (including the principles guiding them), institutions, structures, mechanisms and processes for solving societal problems and creating social opportunities. Specifically, in this article the use of the term governance focuses on the different modes of coordinating individual or organisational actions (Lowndes & Skelcher, 1998; Mayntz, 2005). Coordination is understood as joint working towards a common goal, or as Peters (1998) argued, the process of moving towards a state of minimal redundancy, incoherence and lacunae. Coordination at any level can take different forms and can be achieved by different strategies – networks are only one of several modes of coordinating social interaction. In the following, the Considine and Lewis (2003)

fourfold typology of governance forms is used to analyse current changes in operational governance of activation policies. Each model – procedural, corporate, market, and network – has specific characteristics regarding its core claim and source of rationality, the most common mechanisms of control and the key drivers behind, and focus of, the service delivery (see also Künzel, 2012; Martin, 2010; Osborne, 2010; Pollitt & Bouckaert, 2011; van Berkel & Borghi, 2007). Table 1 presents key characteristics of each governance type.

In the *procedural* governance model, the role of government is that of ‘rowing’ by designing and implementing policies. Regulation of actors is based mainly on a system of fixed rules and statutes, with legislation as the primary source of rationality, and with universality as the core claim of service delivery. Bureaucratic organisations use top-down authority with agencies, and there is central regulation of service delivery in order to achieve universal treatment of clients.

The *corporate* form of governance introduces business-type managerial models in the provision of employment services (Ehrler, 2012). The main form of regulation/control is the use of goal-driven plans, and services are targeted at specific groups of individuals.

Market governance is characterised by marketisation and contracting-out, although markets in public services have been termed quasi-markets (Le Grand, 1991) as they encompass differences from conventional markets: the state remains involved in the financing of services, providers are not necessarily private, and consumers are not always involved in purchasing (van Berkel, Sager, & Ehrler, 2012). In this model, the role of government is seen as ‘steering’ (enabling services to be provided rather than directly providing them). Regulation by statute, standards and process requirements is largely replaced by competition, performance-based payment systems and a purchaser-provider split.

In *network* governance, “clients, suppliers, and producers are linked together as co-producers” (Considine & Lewis, 2003, p. 134). The role of government is seen as that of

‘serving’ by negotiating and brokering interests and shared-values among actors. Instead of fixed organisational roles and boundaries, the notions of joint-action, co-production or cooperation play a major role, with leadership shared internally and externally within collaborative structures. In this model, service-users and other stakeholders may have greater involvement in the development and implementation of policies or programmes. Coordination between actors can be motivated by a shared common culture (Considine & Lewis, 2003).

Table 1 to feature here

Governance models are dynamic and rarely found as ideal types (Saikku & Karjalainen, 2012; van Berkel & Borghi, 2007; van Berkel, de Graaf & Sirovátka, 2012; van Berkel et al., 2012). However, the use and characteristics of the models differ across countries and these differences can be partly explained by the interplay between institutions and actors.

The impact of institutions on governance reforms

In the past two decades, institutionalist approaches have become influential in the explanation of social policy change. Institutions not only shape the capability of governments to implement reform proposals (Weaver & Rockman, 1993), they also have a strong impact on the contents of reform. Thus, in order to understand the national variations in operational governance of activation policies (an international trend), the institutional landscape of the countries under consideration have to be taken into account. Differences depend to a large extent on the traditional framing of the relationship between public, private and societal actors at the different levels of government (Champion & Bonoli, 2011).

Sharing responsibilities in the governance of activation policies with non-state actors or lower-level governments can create veto points limiting the institutional capability of the national government. Germany, with its federal structure and the strong involvement of the social partners in policy formulation and in the administration and provision of employment

services (Weishaupt, 2010), can be argued to be a system with limited capacity for isolated action by individual or collective actors. In contrast, the UK is attributed in the literature with having more freedom of political action (at least for the central government) as a result of its centralised government structures and the more marginalised role of the social partners. In order to capture the structural potential for administrative reforms across countries, Knill (1999) suggested the concept of administrative reform capacity, identifying the UK as close to the model of an instrumental administration¹ and therefore with high potential for transformation. Germany, in contrast, is labelled as an autonomous administration where the capacity for administrative reform is low, with administrative change being basically restricted to incremental self-adaptations by the bureaucracy. This classification is in line with much of the international comparative administrative literature (Hood & Lodge, 2005; Pollitt & Bouckaert, 2011) that has labelled Germany as a ‘maintainer’ and the UK as ‘modernizer’ when it comes to governance reforms.

Germany and the UK differ not only with respect to their political systems and their corporatist traditions; they arguably represent two types of welfare regimes: continental/conservative and Anglo-Saxon/liberal, respectively (Esping-Andersen, 1996). Even though the idea of path-dependency should not be overestimated, as policy change proceeds mainly through incremental change, the institutional differences between the two countries are likely to be relevant for explaining, in part, the changes to the core rationality of the operational governance of activation policies. Following Klitgaard (2007), liberal welfare states are expected to operate in a political environment most receptive to ideas of a more market-based organisation of the public sector, and thus adopt instruments of marketisation

¹ Employment policy (including main labour market policy) and social security policies are controlled at UK level. However, the control of some policies (e.g. skills) has been given to the devolved administrations of Scotland, Wales, and Northern Ireland.

and contracting-out on a broader scale. On the other hand, conservative welfare states are seen as the most unwilling to adopt instruments of marketisation as they are in conflict with the political goal of status preservation.

Theoretical assumptions and Research design

Germany and the UK were chosen because both have experienced an increase of activation in labour market policies; however, they approach it from different governance types and political systems. Given research in the field and theoretical propositions, we expect the following assumptions to be supported by our analysis.

- *Core rationality of operational governance*: due to the different welfare regimes and political systems, it is expected that operational governance changes, occurring as a result of the turn toward greater activation, would be more far-reaching and involve a clearer shift toward market-based mechanisms, such as competition and out-sourcing, in the UK compared with Germany. Operational governance changes in Germany are expected to depict a mixture of hierarchical, network and market-based mechanisms due to past institutions, ideas and actors (Karjalainen, 2010).
- *Type of coordination*: while we expect regulation in the more economically liberal UK to be driven more by price and outcomes, a persistent focus on rules in order to structure the relationship between the actors is expected in the German case. However, corporate and market instruments, such as targets and price mechanisms, might be added and layered upon procedural instruments.
- *Comprehensiveness of coordination reforms*: given the different institutional and reform capacities, coordination efforts are expected to be stronger in the UK. In Germany, with its high initial degree of fragmentation and complex actor

constellations, market governance will further increase fragmentation and therefore allow for less coordination between stakeholders.

Activation policies in Germany and the UK were analysed with regard to their operational governance characteristics (source of rationality, form of control, driver of services and service delivery focus) and mode of coordination between providers. The analysis in Germany focused on placement services and activation measures for recipients of Unemployment Benefit I and II, and pre- and post-Hartz reforms. The analysis in the UK focused primarily on policies targeted at long-term unemployed, as these policies have changed (since 2010) relatively more significantly than have the policies for the short-term unemployed. The data used were twofold: analysis of academic and evaluation documents, complemented by a number of semi-structured qualitative expert-interviews. The document analysis focused on labour market policy reforms that increase activation, focusing on their key characteristics, operational governance and coordination forms. Individuals interviewed held senior positions (such as head of department, a director or a senior manager) within local and national governments, public employment services, public agencies, service providers (from the public, private and third-sector) or interest groups. In Germany, eight interviews were conducted, and in the UK the analysis focused on 19 interviews conducted in one locality in England (supplemented when relevant by interviews in two other localities²). The interviews lasted an hour on average, most were transcribed or partly transcribed, and all were analysed using qualitative thematic analysis. Themes included: activation characteristics (see van Berkel & Borghi, 2007), operational governance characteristics (as per Table 1),

² The research was part of an EU Seventh Framework Programme (FP7/2007–2013) under grant agreement no. 266768. Interviews were also conducted in two localities in the devolved administration of Scotland and Wales (16 and 17 interviews, respectively).

stakeholder coordination forms (including barriers and enablers), and institutional process of reform.

The German case

In Germany, reorientation towards activation has taken place with the implementation of the so-called Hartz reforms. This radical reform package changed the roles of the Federal Employment Service *and* of the local social assistance agencies in the provision of labour market services. The introduction of Unemployment Benefit I (UB I) and Unemployment Benefit II (UB II) in January 2005 created a new division of competences between the federal and the municipal levels. The Federal Employment Agency (FEA) deals with recipients of the contribution-based UB I (unemployed in their first year of job seeking) in local employment agencies. The tax funded UB II is for all those unemployed who are not eligible for UB I and is usually administered by consortia - 'job centres' -, where the FEA works together with the municipalities³ in activating the long-term unemployed, their families and those with special needs but who are considered able to work at least three hours a day.

The creation of the one-stop job centres was justified by the idea that long-term unemployment requires integrated service delivery (Knuth, 2009). Overcoming the traditional institutional segmentation between the different actors involved in labour market service delivery was considered to be a precondition for improving the efficiency of unemployment policy. The shift toward cooperative network governance in German unemployment policy, however, is challenged by a second major reform trend, namely the privatisation and contracting-out of placement services as well as training and education programmes. Privatisation and contracting-out are said to increase efficiency and flexibility.

³ Furthermore, to date 106 municipalities have been licensed to administer the new UB II by themselves, the so-called opt-out municipalities.

However, they also lead to an increased degree of fragmentation of welfare governance – and thus may counteract efforts to improve coordination.

The following sections consider if and to what extent coordination demands are handled in the field of employment services. They map the rearranged organisational landscape of job placement and activation measures in Germany and critically assess the coordination practices.

From hierarchy and corporatist networks to (de-)regulated quasi-markets

It is striking that the governance of placement services and training and education programmes differ in a decisive way – before as well as after the Hartz reforms. Referring to the analytical framework developed above, the status quo ante is best described as a mixture of a procedural and a network regime. The notion of network coordination applied especially to the governance of training and education programmes, which had been provided by organisations belonging in most cases either to trade unions or employer associations. In contrast, the provision of placement services by the FEA had been a clear case of procedural governance: codes of conduct and sanctions in case of misbehaviour were rooted in the idea of bureaucracy; thus, obedience, professionalism and the accountability of decision making and implementation played a major role.

With the implementation of the Hartz reforms, the provision of employment services experienced a shift towards market-based governance. The most obvious change was the introduction of vouchers and competitive tendering, both coordination instruments typical of quasi-markets, which resulted in an increasing number of private providers delivering publicly funded services.

In the case of *placement services*, the introduction of market mechanisms was something completely new. The allocation of a placement voucher, which allows a jobseeker

to mandate a private placement agency to find them a job, is an obligatory benefit for UB I recipients and a discretionary benefit for UB II recipients. The payment of the private provider is completely performance-based: the first payment is made six weeks and the second six months after a successful placement if the employment contract still persists. The introduction of the placement vouchers in 2002 created a quasi-market; thus, the once monolithic structure of the public placement services became more and more fragmented, with numerous private actors (mainly temporary-work agencies and small private-placement agencies) competing for a contract. These providers, due to de-regulation, did not require a specific license from the FEA, a business registration being sufficient. Hence, practically anybody could practice as a placement agency and cash in a voucher (Kaps, 2009). Ten years later, in 2012, the liberalised placement sector was re-regulated, justified mainly by quality problems among private providers. As a result, all providers of placement services (as well as those in the education and training system, see below) now need certification.

The placement voucher has gained only limited importance, and the most important actor in the provision of placement services remains the FEA. The internal steering system of the FEA in this regard is highly detailed, formalised and target-driven for both benefit regimes, UB I and II. However, in contrast to some NPM-approaches, next to outputs and outcomes, procedural standards are also measured, creating a highly complex target system.

With regard to the *governance of the training and education programme*, coordinative instruments have also been altered. To weaken the dominant corporatist network, a competitive tendering system and training vouchers for long-term training and education measures were introduced (Bruttel, 2005). Since 2003, a case-worker issues a training voucher to the jobseeker if a training measure is deemed necessary for a job placement; they have no right to advice, support or influence the jobseeker in the search process, but the FEA offers self-search systems/databases. These changes have been justified mainly by arguments

that vouchers boost competition among providers and thus might enhance the quality of training, and should increase clients' choice.

In contrast to placement services, the introduction of competitive tendering and vouchers was combined from the beginning with a comprehensive system of certification and accreditation of providers and training measures (by for-profit certification companies according to input criteria such as capacity, personnel, etc.), accompanied by standardisation, planning and quality control. Since the beginning of 2012, the FEA has a *de facto* veto against the certification of all measures if their costs per hours exceed a defined threshold. The certification companies themselves have to be certified also by the national accreditation body, Deutsche Akkreditierungsstelle (DAkkS).

The planning and quality control is conducted jointly by the local employment agencies and the job centres using sampling inspections with the central audit service of the FEA. Furthermore, they can initiate their own audits and can apply sanction mechanisms such as the withdrawal of funding decisions. The most important criterion for the incorporation of training measures in the annual regional training plans is the expected labour force integration rate of participants.

Moreover, all active labour market measures conducted by private providers and not funded by vouchers (such as assessment measures, short-term trainings and specialised courses for persons with disabilities) are currently purchased in a standardised competitive tendering process. In 2004, five regional purchasing centres (Regionale Einkaufszentren – REZ) were established to conduct the tendering process in cooperation with local employment agencies and the joint facilities: a compulsory and voluntary requirement, respectively. However, in 2011, more than 97 per cent of the joint facilities had used the services of the regional purchasing centres (personal interview).

The main rationale for introducing the voucher system as well as the competitive tendering system was to foster competition and thus efficiency among employment service providers. However, the idea of increasing consumer choice also played a crucial role (Kaps & Schütz, 2012). Nevertheless, the potential for the unemployed to act as informed consumers in the training or placement ‘market’ remains limited due to: (1) their purchasing power being restricted because both the content and extent of labour market services are fixed by the voucher (Bruttel, 2005); (2) their consumer choice being hampered by continuing information asymmetries.

Multi-stakeholder coordination: regulation, but no cooperation

In summary, the new coordination regime in Germany can best be labelled as a hybrid model, combining all four governance models described above. While network governance has definitely been weakened, procedural governance with its emphasis on law, rules, reliability and universal treatment is still strong and even regaining strength. First, the internal steering of the FEA displays strong elements of standardisation and hierarchical control. Second, the outsourcing of employment services is embedded in a complex web of certification, accreditation, tendering rules, annual planning and quality assurance.

However, at the same time, elements of corporate governance (introduction of management-by-objectives) and market governance (competitive tendering, voucher system, consumer choice) are layered upon procedural governance, making it increasingly difficult to classify the German system as a single regime type. In terms of coordination focus, consumer choice plays a negligible role and the system may leave out those who are most in need of active labour market support, thus reinforcing social inequalities as it gives well qualified jobseekers a competitive edge (Bruttel, 2005). Recent evaluations have shown that jobseekers

with low labour market chances – such as those without vocational qualifications – are less likely to redeem the vouchers (Kruppe, 2009).

In summary, coordination takes place through a hybrid system that combines elements of competition and consumer choice with strong public involvement through market regulation, supervision and monitoring.

The UK case

Since the 1970s, marketisation of UK labour market policies has occurred (Finn, 2005), based on opinions that competition and client choice would result in innovation, better customer service and improved performance (McQuaid & Scherrer, 2010; Davies, 2010; Freud, 2007). Evidence to support this is at best scarce and on occasion contradicts this assertion (Davies, 2010; Hudson et al., 2010; National Audit Office, 2006).

From around the 1980s, active labour market policies, usually consistent with work-first approaches (Lindsay, McQuaid & Dutton, 2007; Sol & Hoogtanders, 2005), increased in the UK (Taylor-Gooby et al., 2004). It is, however, through the 1990s after which a turn toward greater activation is more clearly distinguishable. Increasing support measures aimed at labour market participation through ‘welfare-to-work’ programmes (for more information on New Deals, see Stafford & Kellard, 2007; Vegeris et al., 2010) and ‘make-work-pay’ initiatives have been implemented alongside increasing compulsion for some unemployed or inactive groups, and coordinating the benefits and employment agencies by merging them into Jobcentre Plus (JCP) in 2002. The current Coalition government, in office since 2010, despite a stronger rhetoric on obligations for benefit recipients, has continued and accelerated the trends inherited from the previous Labour government, including continuing and extending operational governance characteristics such as the prime contractor model and the (quasi) black-box approach.

The provision of basic job-matching services for the short-term unemployed in the UK is the responsibility of JCP through a corporate governance model. However, most of the services offered to benefit recipients ('Get Britain Working' initiatives) are contracted-out by the Department for Work and Pensions (DWP) to private or third-sector organisations through mostly centralised-market governance. Providers have, generally, limited discretion over the goals and processes of these services. The majority are supply-side initiatives (such as job advice, work experience), with a small number of demand-side measures such as wage subsidies and incentive payments. Changes replacing JCP process-driven-targets with an outcome-measure focus (Nunn & Devins, 2012) have provided some limited discretion to the JCP Standard Operating Model. However, a lack of resources, a target-based culture and operational structures could hinder reforms (Goerne & Clegg, 2013).

In summary, marketisation and activation have continued to proceed on a roughly similar path since they were first introduced. Changes to the operational governance of activation policies introduced by the Coalition government are the focus of the next section.

From centralised marketisation towards a more business-type governance

The goal of the Work Programme (WP), the national support provision for the long-term unemployed, is to increase the number of people participating in paid employment. Crucially, it places greater emphasis on job-sustainability than previous initiatives did – from 13 to 65 weeks as minimum outcome sustainability (DWP, 2013). Arguably, this longer sustainability criterion for drawing full payment requires more careful consideration of individuals' barriers to employment, appropriate jobs and in-work support. This could be seen to some extent as an important variation of the work-first approach: moving a person to any job may not be cost-effective for the contractor if the person does not remain in employment. Differential job-outcome payments (based on benefit type, age group or specific characteristics) aim to make

‘creaming’ and ‘parking’ of individuals (those closest and furthest away from the labour market, respectively) financially unattractive. However, these do not appear to be effective, as a recent DWP report (Newton et al., 2012) found a tendency to ‘cream’ as suggested by higher expenditure and more frequent meetings for service-users with lower barriers; while outcome figures (DWP, 2013) could indicate a tendency to ‘park’ as suggested by the targets not being met for those previously in disability benefits. Nevertheless, the latter could also indicate inadequate support being offered, that these groups need longer assistance to reach job outcomes, and/or that targets set for these groups are unrealistic.

The marketisation process for the WP has been novel to some extent, with requirements for bidding (minimum annual turnover of £20m) resulting in many organisations being unable to compete in the tendering process, and stakeholders raising concerns about the creation of ‘mono-cultures’ or ‘hyper-primers’ in the delivery of employment services at both local and national levels: 18 prime-contractors or primes in the UK, with each region having two or three prime contractors (DWP, 2012). Rather than the creation of competition and choice, this could result in the squeezing out of specialist provision (Damm, 2012; Osborne et al., 2012; Dutton, Egdell, McQuaid, & Osborne, 2013; Lindsay, Osborne & Bond, 2014). This fear could be offset by the requirement that prime contractors include supply chains in their bids; however, no specification on the use of suppliers exists thereafter (Simmonds, 2011). Newton et al. (2012) found considerable variation and hinted at the low use of sub-contractors in the WP, due either to low participant numbers with specialist needs or to providers minimising external cost (Fuertes & McQuaid, 2013), which compares with findings from previous programme evaluations (Hudson et al., 2010; Roberts & Simmonds, 2011). Interviews in the current study with sub-contractors showed different experiences: those reporting negative experiences cited low level of referrals and uncertainty regarding payments. The level of in-house provision and outsourcing of primes interviewed was mixed:

in most cases, outsourcing was a result of primes lacking physical presence in a geographical area, specific expertise or cost-effectiveness compared with sub-contractors.

In terms of providers' discretion over service delivery, DWP placed no procedural requirements on primes, other than a minimum service agreement (DWP, n.d.). Although a similar 'black-box' approach was characteristic of some previous programmes (Hudson et al., 2010; Vegeris et al., 2010), it was considered over-specified (DWP, n.d.). It could be argued that focusing on outcomes rather than processes increases discretion and flexibility, and allows local factors and individual needs to be taken into account, as well as allowing greater organisational and operational innovation. It is still uncertain how the WP is being implemented, although it seems that procedural personalisation is more common than substantial personalisation (Newton et al., 2012). Concerns have been raised, based on evaluations of previous programmes with similar financial models, about prime contractors not having the necessary skills to deal with service-users' specific needs and being tempted to avoid sub-contracting (Damm, 2012). Incentive payments should counter this tendency, but it has been argued that competitive tendering can create unrealistic targets in order to win contracts (Damm, 2012), and that outcome-based funding is not adequate for providing interventions for those hardest to help (Davies, 2010; Hudson et al., 2010). Mulheim (2011) highlighted that due to WP overestimated performance predictions, outcome payments could be too low to be financially viable. This was supported by some interviewees:

It is very much a contract on the cheap and the people who lose out from that are not [pause], we have lost out, but it's more the customers, and my estimate is that compared with previous DWP programmes, we are trying to deal with long-term unemployed, often with a range of issues for probably about a third of the cost of what we were say five or six years ago in a situation where the economy was more buoyant.

The WP has characteristics of market governance, with competition as a source of rationality, contracts as a form of control, and cost and performance measures as a driver of service.

Consequences of operational changes on coordination are developed below.

Potential coordination through market means?

First, it is argued that centralised market governance with high contract-steering and performance measurement and low operational-level discretion in previous welfare-to-work programmes for the long-term unemployed has been largely substituted by a business-type market governance, with high operational-level discretion (Fuentes & McQuaid, 2013; Ehrler, 2012). Centralised control of broad strategies, target groups and minimum service provision still remains in the hands of the DWP via its purchasing role. Central control is also maintained over individuals through mandatory referrals by JCP to WP providers, with clear guidelines from the DWP and no input from the provider or the individual. Failure to take part in the WP and related activities, including refusing or leaving training, can result in JCP imposing benefit sanctions. Secondly, the WP has arguably reduced competition at the local level. This type of marketisation does not appear to increase choice or on-going competition, except between a small number of large companies, at the time of initial contracting-out and at specified performance reviews (where more effective contractors might be awarded a greater share of clients). Thirdly, it could be argued that high operational discretion, and differential and sustained payment-by-result, allows or encourages providers to be flexible (driver of service), and to focus on clients (service delivery focus), resulting in localised and coordinated service provision between policy areas, providers and policy levels. Nevertheless, concerns have been raised about ‘creaming’ of clients, the level of personalisation of programmes based on payment-by-results and competitive tendering, especially with regard to

the WP which due to its financial and operational model could contribute to a concentration of long-term provision with a limited number of large, often global, organisations.

Discussion and conclusions

This article analysed the changes in operational governance of activation policies in Germany and the UK. It focused particularly on the mode of stakeholder coordination observed in recent reforms, aiming to contribute to explanations of the path taken by both countries.

With regard to the article's first theoretical assumption – differences in the core rationality of operational governance due to different institutional landscapes – it can be said that activation policy reforms in Germany have introduced, and in the UK have extended, competition among service providers with important implications for the coordination of policies and key stakeholders. Although network governance has become a 'buzz-word' in activation policies, a clear shift towards this approach was not observed. In both countries, activation policies have been accompanied by cost-saving and outcome-focused strategies (often echoing New Public Management ideas); and market and corporate governance models are more crucial than networks. The scarcity of network governance in both countries could hinder the efficacy of activation policies, as they require the collaboration of different policy areas and various stakeholders. This could also affect the wellbeing of individuals targeted by activation policies due to lack of integrated and holistic support.

In the UK, the operational governance of activation policies for the short-term unemployed has not changed substantially in at least the last decade (based on corporate governance in services provided by Jobcentre Plus, and centralised-market governance in contracted-out provision), although a move towards more outcome-based regulation has been observed. Recent changes to activation policies for the long-term unemployed have introduced a business-type market governance. These changes, although strongly opposed by

some societal actors and in some cases sub-national government levels, have been possible in part due to the UK's high institutional capability (e.g. the centralised nature of government structures and labour market policy) and a general political consensus (e.g. based partly on NPM -ideas) within the main Westminster political parties (to some extent apparent on the current reforms following on from, and extending, some previous administration policies). This high level of institutional capability is also likely to be a factor that influences the content of the reform. However, procedural governance characteristics (such as clear rules in terms of mandatory participation and lack of choice for service users) can be found in activation policies.

While the UK case still comes comparatively close to the ideal types of market and corporate governance, Germany displays a more hybrid character of operational governance of activation policies. Germany, with its fragmented actor constellations in both policy formulation and implementation providing numerous veto points, has only recently moved towards the internationally shared trend of market governance. However, as this shift is highly contested, a constant navigation between procedural and market forms of coordination can be observed.

Important differences and some similarities between the two countries also become obvious with regard to the second theoretical assumption: the form of coordination and regulation. Clients as a source of coordination play a negligible role in both countries. In Germany, coordination via service-user discretion exists with many limitations: the placement voucher plays only a minor role compared with other instruments; the content and extent of services have been determined by public agencies; and service users are not enabled to act as informed consumers. In the UK, there is no real service-user choice in employment services.

Coordination of services in both countries is done primarily by the purchaser (public agencies or government departments) through contracts, although in the UK the regional level

co-ordination between service providers is left to the prime contractor with little or no involvement of the DWP. As expected, even though the overall planning of activation measures and procedural characteristics that govern service-user regulation is still influenced or set by the DWP, coordination decisions in the UK are driven to a large extent by price and outcomes, and gradually less by DWP-imposed plans or rules. This tends to increase providers' flexibility and discretion to decide service processes and services coordination at regional or local level. In Germany, too, an increased emphasis on (price) competition and the introduction of performance-based pay systems can be observed. However, more market-based strategies have not meant less public intervention in Germany. The emerging welfare market for placement and training services is in an ongoing 'learning-by-doing' process that leads to regular adaptations concerning coordination practices and instruments. There is a clear trend toward greater regulation of market access through certification of providers and the standardisation and professionalization of tendering procedures. Furthermore, an increased oversight of service provision and service providers by public and private actors on different levels is also evident. This has reduced discretion for public street-level bureaucrats as well as for professional staff in private service providers, which marks an important difference to the UK case.

Table 2 details the differences of services coordination for the various activation policies in Germany and the UK.

Table 2 to feature here

Our empirical findings with regard to the final theoretical assumption – the comprehensiveness of coordination efforts – are difficult to assess. First of all, the empirical results in both countries lead to the somehow contradictory finding of 'more markets, more rules'. This is in line with an argument made by Hefetz and Werner (2004) that market solutions are not a substitute for government regulation and control, but that structuring

markets for public goods and ensuring quality in service delivery remain a core government responsibility. Meier and Hill (2005) also argued that in practice the distinction between hierarchies and networks is less important than in theory.

In terms of comprehensiveness, we expected coordination efforts to be stronger in the UK, given its greater reform capacities and the high initial degree of fragmentation and complex actor constellations in Germany. Indeed, when comparing both countries, there seems to be more fragmentation in the German employment services market. The purchasing system, with its large number of small and short-term contracts, results in relatively high transaction costs with few providers willing to make longer-term investments in their delivery capacities. The UK, on the contrary, has created with the prime provider model something that comes close to an oligopoly at the regional level, and which, through the transfer of responsibility for service coordination to prime contractors (within market governance), could rationalise the provision landscape albeit through principal-agent relations or in-house provision (with positive and negative consequences being voiced). However, closer consideration reveals limitations of coordination in the UK as this is left to each individual prime contractor, due to the 'black-box' model, whereas provider action is closely monitored in Germany. Here, more research is needed to analyse the different types of market regulation and their impact.

In sum, in both countries, employment services are confronted with increasingly complex environmental and internal conditions. The analysis of activation policies shows the complexity of governance arrangements with a combination of different steering and coordination instruments. Reforms in both countries are characterised by combining and layering different governance mechanisms (such as standardisation, performance management, competition, and consumer choice) rather than by the total substitution of one governance form by another. As a result, a mixture of competing and sometimes inconsistent

coordination principles has emerged that balances interests, values and power relationships. The findings of this paper suggest that practical policy implementation reflects combinations of different theoretical forms or models, so that the distinctions between forms may be more important in theory than in practice, although the combinations vary in different countries or under different circumstances. Research might usefully develop more explicit hybrid models that combine different aspects of ‘pure’ models of governance, and which may be applicable in different circumstances. More comparative research is needed with more countries experiencing greater use of activation policies and the associated operational governance reforms, in order to develop this preliminary analysis.

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Table 1. Governance types.

Governance types	Key characteristics			
	Source of rationality and core claim	Control mechanism	Major driver of services	Service delivery focus
Procedural	Rule of law; Public sector ethos	Rules	Reliable treatment	Universal
Corporate	Management; Efficient	Plans	Goal-driven	Target groups
Market	Competition; Consumer-responsive	Contracts	Cost-driven	Outcomes and price
Network	Culture; Effective and legitimate	Co-production	Flexible	Client

Source: Own depiction based on Considine & Lewis (2003), Künzel (2012), Martin (2010), Osborne (2010), Pollitt & Bouckaert (2011).

Table 2. Service coordination drivers in Germany and UK's activation policies.

	Service coordination drivers		
	Service-user discretion	Purchaser or case-worker discretion	Provider discretion
Germany	Placement vouchers Training voucher	Other placement and training measures	
UK		Jobcentre Plus services Other measures	Work Programme

Source: Own depiction.