Business Model Choice for Latvian Public Employment Service: What is the Best for Labour Force Competitiveness?

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Abstract

This study presents a comprehensive analysis of advantages and disadvantages of different business models for public employment services (hereafter - PES) aiming to determine the model most suitable for the Latvian labour markets. The study identifies strengths and weaknesses of performance monitoring systems applied by Latvian, Estonian and Danish PES, especially in the area of the implementation of active labour market policies and suggests a set of indicators which may be used for evaluation of PES influence on the performance of the labour market in light of the EU growth strategy “Europe 2020”.

The study starts with a review of the theoretical and empirical literature on the impact of the design of the PES performance management on the labour demand and level of unemployment. The literature will provide theoretical framework for extensive evaluation of the business models of Latvian, Estonian and Danish PES. In-depth cross-country comparisons will make a stronger case for conclusions about the impact of different labour market policies instruments on the labour market in general and on specific target groups such as long-term unemployed and unemployed youth.

Keywords: Labour economics; Public employments service; Performance indicators; Institutional business model; Regional science.

Introduction

PES business mandate and role is related to human resource management of the aiming at improving social welfare through the following three channels: (i) increasing labour market effectiveness; (ii) promoting equal access to labour market; (iii) mitigating the negative consequences of cyclical and structural changes in labour demand.

The differences of the PES business models can be found in three dimensions: autonomy, decentralisation and interaction with social partners. In terms of autonomy, PES can be either executive agencies (generally under the

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direct control of the Labour Ministry) or judicially autonomous from the government, public bodies. The second dimension is related to degree of decentralisation across the levels of PES organisations. The third distinctive feature of PES’ organisational model is whether social partners have a supervisory role in the PES or not.

Differences in the external operating environment have a significant influence upon the efficiency of employment offices at local level (Vassiliev, Luzzi, Fluckiger, 2005).

Decentralization of decision-making in labour market policy may increase efficiency, since local authorities have first-hand knowledge about local labour market problems. However, decentralization may also be associated with fiscal externalities generating misallocation. Econometric findings by (Lundin and Skendiger, 2006) do not indicate any increase in geographical lock-in of the unemployed due to decentralization, while decentralization seems to spur local initiatives in the form of projects organized by the municipalities and increase targeting on outsiders in the labour market.

The aim of PES is to reduce the costs of job-search (Fougère, Pradel, & Roger, 2009). The main task of PES is the alignment of workforce supply and demand to stabilize the labour market. Therefore, it is important for PES to promote the availability of information about the labour market. PES must also offer specific support to the persons who face difficulties in the labour market.

The State carries out its labour market intervention by using active and passive employment policy instruments. The aim of active labour market policy (usually implemented by PES) is to favour the employment and wage increase for the people for whom the independent integration into the labour market causes difficulties (Cahuc & Zylberg, 2001).

For PES performance evaluation it is possible to use the following three measures of what we would call final outputs: the average wage of the former PES clients who have found jobs; the number of young people matched with jobs; and the total number of individuals matched with jobs. There exists also a practice to measure the effectiveness of PES activities in assessing the average amount of man-hours per job placement (Althina, n.d.).

Job-search assistance, acquisition and improvement of professional qualification, subsidized employment programs and public employment programs in all the countries are the best-known forms of employment promotion. These services are provided to individuals by PES.

The main outcome for the employment services is that unemployed individuals leave unemployment for unsubsidised full-time job in the open labour market (Andersson, Mansson, & Sund, 2014).

It would also benefit the unemployed if they were matched with a job in the open labour market rather than placed in a temporary job, or a job that does not correspond with education and/or preferences (Althina, n.d.).

1. Evaluation of business models of Latvian, Estonian and Danish PES

National governance structure in which PES operate depends on PES degree of autonomy from parent ministry or department, the involvement of private sector, the organisation of benefit system, the participation of social partners in decision making process and degree of administrative decentralisation. When social partners are involved in decision making of PES, this can contribute to better and more informed decision. The implementation phase may be less troublesome because these partners are able to create support among their respective stake holders, namely employers and employee organisations (Leroy & Ludo, 2014).

For implementation of Europe 2020 strategy (European Commission, 2010) PES of European countries have developed their own strategy "PES 2020 Strategy" (European Commission, 2012). According to this strategy PES services are divided into five groups: services for employers, services for alignment between labour market supply and labour market demand, services for improving workforce skills and competences, the unemployed sustainable activation services, services for improvement of career of the unemployed. ALMP measures cover two of these groups of PES services - services for improving workforce skills and competences (various vocational education programs) and the unemployed sustainable activation services (various subsidized employment, public works programs).

For the countries examined in this research - Latvia, Estonia and Denmark - PES organization and management are different.

In Latvia the social partners, non-governmental organizations and municipalities are not involved in the organization and management the PES. The Latvian PES cooperates and consults with social partners, non-
governmental organizations and local authorities in the process of performing its duties. The cooperation with municipalities take place in accordance with the provisions of the Law of the Support to the Unemployed and Job Seekers, on the basis of the cooperation agreements concluded between PES affiliate managers and the local government. The PES organization of Latvia has only two levels - central office and 28 regional affiliates, whose managers are subject and accountable to the central management of the PES.

The Latvian PES uses the following indicators to assess performance efficiency and the impact on the labour market: (i) the number of persons involved in ALMP measures; (ii) rate of entrances to employment by ALMP measures within 6 months after the person's participation in ALMP measures; (iii) rate of long-term unemployed involved in ALMP measures; (iv) the youth unemployment rate % concerning the persons who within six months after getting the status of the unemployed have become active - recruited or involved in any of the ALMP measures; (v) the filled vacancy rate %, performed due to the unemployed selection in cooperation with employers,; (vi) the median unemployment duration for registered unemployed placed to jobs. For each of 28 Latvian affiliates, the annual goals to be achieved are defined according to “Management by Objectives” methodology.

The Latvian PES operations are financed centrally and from the state budget, special budget, financial resources of the EU Structural Funds and other investment projects attracted.

The Estonian PES operates as an independent public institution managed by three bodies representing the government, the trade unions and the employers' organizations. The three bodies have equal rights and responsibilities. The organization of Estonian PES has a three-level structure - central office, 15 regional offices and 26 customer service points.

The Estonian PES is financed by the Estonian Unemployment Insurance Fund, governmental and other financial resources of the EU Structural Funds. The decisions on the aims of use of financial resources and their proportion are adopted by the Estonian Unemployment Insurance Fund (EUIF hereafter) tripartite council.

The goals and indicators of the EUIF are divided into four sets: impact indicators (labour market integration); output indicators (access of employment services); quality indicators; activity indicators. The Estonian PES applies the following performance indicators: (i) rate of entrances to employment within 12 (6 or 4) months for newly registered unemployed (excl. recipients of unemployment insurance benefit), %; (ii) rate of entrances to employment within 12 (6 or 4) months for new recipients of unemployment insurance benefit, %; (iii) participation rate on active measures of long-term unemployed (period of registered unemployment at least 12 months) within past 12 months; participation rate on active measures (monthly average), %; (iv) inflow to active measures (monthly average number of entrances); (v) satisfaction index of job seekers and employers (Estonian Unemployment Insurance Fund, 2013).

The governance model of the Danish PES more than the other models discussed in this study focuses on the co-ordination of implementation of employment policy at three –tier levels (national, regional and local) and on the involvement of stakeholders of all levels in this process.

The local governments finance their activities to promote employment from two sources of funding: from their revenues from the proceeds of the residents of the municipality and the transfers of the government for compensation of the employment policy expenditure and subsidies by the government of the national level. The municipality has the right to decide on the allocation of the available financial resources between the measures, job centre costs, including staff. The system of determining the amount of Government compensation expense transfer contributes to the promotion of employment or training to the maximum possible number of the unemployed. Local governments have no right to change the priority level of ALMP measures determined at national level, otherwise the local government loses compensable fund share. According to the experts, such an employment policy implementation arrangements for financing motivates each local government to provide more fruitful outcome of ALMP (Mploy, 2011).

The system of the assessment of the Danish PES performance and the impact on the labour is complex because the employment policies of the implementation of the system are complex. At the national level strategic objectives and indicators are set for assessing the implementation of employment policy. At the regional level, these national objectives are coordinated with the needs of employers. Compared with the indicators used for the assessment of the Latvian PES performance, these indicators are more directly focused on the faster involvement of the unemployed into the labour market, as well as the involvement of the young people without education into the education system in order to obtain professional qualifications. Positive is the fact that in the process of implementation of
employment policy objectives in Denmark, they are adjusted regionally in order to account for considerable differences in labour markets between the four Danish regions.

2. The impact of different labour market policies instruments in the labour market

Access to implementing active employment policy depends on the funds from countries’ budgets that are marked for this goal and the approach how countries divide these funds between ALMP. See Fig.1.

Data: Eurostat

Fig. 1. Public expenditure on active employment policy in Latvia, Estonia and Denmark (% of GDP)

The three countries under consideration differ not only in percentage of the funds allocated for employment promoting form gross domestic product, but also in the policy of dividing these funds between active, passive, and preventative employment measures. The ratio of expenses between active and passive measures is more proportionate in Denmark and Latvia, where ALMP has a significantly larger part of all the funds for employment promotion. In Latvia and Estonia a small part of employment policy expenses is given to preventative unemployment reducing measures. In Latvia and Estonia the percentage of allocated funds for employment promotion policy is also many times smaller than in Denmark, which negatively impacts (decreases) the ability of these countries’ PES to influence labour market and promote employment.

3. PES performance monitoring indicators

PES use different groups of indicators for business monitoring. Table 1 summarises these indicators.

Table 1. Comparison of Latvia’s, Estonia’s, and Denmark’s PES business monitoring indicators.

<table>
<thead>
<tr>
<th>ALMP and other PES measure types</th>
<th>PES business monitoring indicators</th>
<th>Number of the involved</th>
<th>Number of the created workplaces</th>
<th>% of recruitment after participation in ALMP</th>
<th>After ALMP involved in another ALMP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training measures</td>
<td>L, E</td>
<td>L, E</td>
<td></td>
<td></td>
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<tr>
<td>Employment measures</td>
<td>L, E</td>
<td>L</td>
<td>L, E</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Other measures</td>
<td>L, E</td>
<td>L</td>
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<td>L</td>
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</tbody>
</table>
Decreasing of the unemployment duration L, D
Decreasing of the unemployment duration for young people D
Decreasing of the unemployment duration for immigrants from third world countries D

Designations: L- Latvia, E- Estonia, D- Denmark

Table 2. Comparison of Latvia’s and other countries’ PES business monitoring indicators.

<table>
<thead>
<tr>
<th>PES course of business</th>
<th>PES program evaluation indicators of different countries (Thuy, Hansen, &amp; Price, 2001)</th>
<th>PES program evaluation indicators of Latvia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruiting (Job-brokering)</td>
<td>Amount of occupied vacancies</td>
<td>Number of served customers in a month</td>
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<tr>
<td></td>
<td>Proportion of occupied vacancies against PES registered vacancies</td>
<td>Number of served customers on average in a month for one employee in the customer service</td>
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<tr>
<td></td>
<td>Amount of occupied temporary vacancies</td>
<td>The proportion of filled vacancies in the result of selections, in %</td>
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<tr>
<td></td>
<td>Percentage of integration in the labour market</td>
<td>Satisfaction of clients</td>
</tr>
<tr>
<td></td>
<td>Faster involvement of the unemployed into the labour market</td>
<td></td>
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<tr>
<td></td>
<td>Rate of entrances to employment within 12 (6 or 4) months for newly registered unemployed</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Decreasing of the unemployment period for third world country immigrants</td>
<td></td>
</tr>
<tr>
<td>Adaptation of labour market</td>
<td>The % of people with disabilities involved in support programs from the total number of these citizens</td>
<td>Amount of unemployed persons to be involved in ALMP</td>
</tr>
<tr>
<td></td>
<td>Amount of citizens involved in professional education programs</td>
<td>The % of long-term unemployed person involvement in ALMP %</td>
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<td></td>
<td>Young people without education into the education system</td>
<td>Recruitment % after participation in ALMP %</td>
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<tr>
<td></td>
<td>Participation rate on active measures of long-term unemployed (period of registered unemployment at least 12 months) within past 12 months</td>
<td>Satisfaction of clients</td>
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<tr>
<td></td>
<td>The proportion of citizens, who don’t receive unemployment benefits because of taking part in support program</td>
<td></td>
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<tr>
<td>Unemployment benefits</td>
<td>The proportion of unemployment benefits granted in 21 days’ time in %</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Rate of entrances to employment within 12 (6 or 4) months for new recipients of unemployment insurance benefit</td>
<td></td>
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<tr>
<td>All programs</td>
<td>Inclusion in un-subsidised employment</td>
<td>The amount of persons to be involved in ALMP</td>
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<td></td>
<td>The amount of people in un-subsidised employment for 6 and more months</td>
<td>Amount of created job places</td>
</tr>
<tr>
<td></td>
<td>Pay in an un-subsidised job</td>
<td>Recruitment % after participation in ALMP %</td>
</tr>
<tr>
<td></td>
<td>Satisfaction of clients</td>
<td>After ALMP involved in another ALMP %</td>
</tr>
<tr>
<td>Effectiveness of expenses</td>
<td>Expenses for one recruitment</td>
<td>Satisfaction of clients</td>
</tr>
<tr>
<td></td>
<td>Amount of recruitments per one PES employee</td>
<td>Number of served customers on average in a month for one employee in the customer service</td>
</tr>
<tr>
<td>Regional impact/differences</td>
<td>The annual action plan transposed to regions taking into account the regional labour market situation and the agreed principles indicators are adjusted regionally</td>
<td>Larger intensity of single ALMP in region with highest unemployment or the program does not apply in a region with low unemployment rate</td>
</tr>
</tbody>
</table>
to data limitations, the Latvian PES does not evaluate if there are positive changes in the wage levels of the unemployed placed to jobs via PES although in principle this is possible by matching PES data with data of the State Social Insurance Agency (this has been done in the World Bank project "Latvia - Who is Unemployed, Inactive or Needy?", see Hazans (2013)). Latvian PES doesn’t evaluate the expenses for PES of recruiting one unemployed person, and also PES doesn’t even out the business evaluation results according to regions, taking into account the different unemployment rates in country’s regions. Latvian PES doesn’t separately evaluate the effectiveness of services provided to the immigrants.

Conclusions

For promoting labour force competitiveness it is important to receive fast and precise support from PES, so the PES business model should provide equal access to services everywhere in the country, and has to take into consideration the local labour market specifics as well. PES performance monitoring indicators should be comprehensive, so the improvement of an individual’s competitiveness in the labour market and changes in the level of welfare can be measured as precisely as possible. From this perspective, we have identified the following weaknesses in the performance monitoring systems applied by Latvian, Estonian and Danish PES.

Because of the centralized management Latvian and Estonian PES do not monitor the results of problem solving in the specific local labour market. It is done by the Danish PES, especially solving the problems regarding recruitment of long-term unemployed persons.

The representatives of employer organizations that are involved in Estonia’s PES management promote an understanding of appropriate solutions for labour market alignment problems. But none of the PES considered in this study monitors the availability of labour market information.

The centralized approach of Latvia’s and Estonia’s PES business models together with countries’ policies and a limited budget for employment promotion measures provide a united approach to promotion of labour force competitiveness, but does not take into consideration the local labour market problem specifics and solutions, as Denmark’s PES does in cooperation with municipalities.

References